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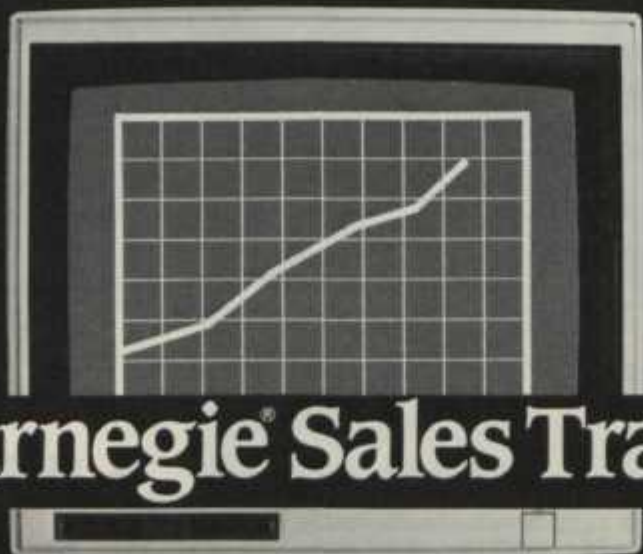
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18

PHOTO: SKA GOODNESS



The Sea Goddess is a luxury liner that caters to the big spender.

42

PHOTO: MICHAEL FORDINI—FOCUS ON SPORTS



The New York Marathon—computerized, businesslike.

5

BUSINESS ISSUES

Cover Story

18

Turning to the private sector for work customarily handled by government agencies has become a major trend, especially at the local level. Public officials find that businesses can often provide services at less cost—and do a better job.

Flip Side of Falling Rates

16

Falling interest rates usually presage a rising economy. But rates have been declining for a year, and there is no sign yet that the economy is taking off. When will it?

MANAGING YOUR BUSINESS

Tips From Entrepreneurs

28

Starting a business is the ultimate learning experience. Those who have learned successfully offer advice that could be invaluable. Here are 28 ways to learn to run a business.

Active Years at Sears

31

Edward R. Telling, chief executive officer of Sears, Roebuck & Company, established himself from the outset of his company career as independent, creative and direct. He carried those qualities to the top of his company. Sears will never be the same.

Saying What You Mean

37

All the best managerial intentions can be ruined by a careless word or look. Being clear and offering praise at the right moment can create a smooth-running operation.

Capturing the Big Spenders

42

An increasing number of Americans have large disposable incomes. And a large number of entrepreneurs are joining the ranks of the wealthy by catering to the big spenders.

Strategies for Success

60

Jeff Frankel was not a great student, but he liked school. Then business got great, and school was out.

The hotel business is tough, but a pro can make money, Ralph Molter figured. He figured right.

David Haas sells a tag that can only be used once to enter a building. Salesmen don't like it, but companies do.

Necessity first propelled Mike and Laura Hanna into the gift-wrapping business. Profits keep them there.

SMALL BUSINESS

Tax Reform

14

The administration's tax reform plan pleases some small business people, but not others. All want to see some kind of reform. Also: a bill to encourage entrepreneurs, venture capital, more hiring.

Big Gathering for Small

48

The third White House Conference on Small Business kicks off next summer with a full plate of issues to settle. Major areas to be chewed over: procurement, regulation and paper work, taxation, innovation, education and training, payroll costs, finance, economic policy and international trade.

TECHNOLOGY

New PC Entries

15

Despite the shakeout going on in the computer industry, two European-connected companies are staking claims to a share of the U.S. small to mid-sized business market.

This May Be Your Type

38

That old, familiar typewriter keyboard was actually designed to slow you down. The Dvorak keyboard was introduced to increase speed, but it languished until the computer made changing keyboards simple.

Computerized Running

50

With tens of thousands of marathoners to handle, the New York City Marathon's organizers turned to computers for help. The result: a well-run race and quick, individualized results.

TRADE

Opportunity in India

12

India, long a bastion of protectionism, is opening some of its markets to imports—creating opportunities for U.S. business that foreign competitors are rushing to seize. The emphasis is on high and medium tech goods.

Wooing Foreign Investors

53

States are going abroad to search out investors just as they send representatives to different parts of the United States. And the efforts are paying off. Direct foreign investment is growing rapidly.

COVER PHOTO: T. MICHAEL KEZA



Viado Dukcevic is a small, but happy foreign investor.

53

DEPARTMENTS

- Letters** 5
Events in a traditionally Democratic Pennsylvania county may reflect a national realignment in politics.
- James J. Kilpatrick** 6
What can explain historic sunbursts of genius? There is no question that the United States is in one now—a different kind of explosion.
- For Your Tax File** 8
Tax reform, if passed as proposed by the administration, will contain some pleasant and unpleasant changes for businesses with inventories.
- Washington Letter** 9
An inside report on events and trends in the nation's capital, including the drives for tax reform, the line-item veto and the balanced budget amendment.
- To Your Health** 25
If you don't like shots and gag on pills, there may be a way of delivering medication that is just for you.
- Personal Finance** 52
Investing in movies can be profitable as well as glamorous, but you have to be prepared for high risks when you put your money in Tinseltown.
- Take a Stand** 56
What is your opinion on these issues of concern to business?
- Classified Ads** 58
- Congressional Alert** 63
How to inform decision makers of your views on legislation, from tax reform and immigration to the Superfund and comparable worth.
- Editorials** 64

From the Editor



Architects of the *Nation's Business* redesign: owners Massimo and Lella Vignelli of Vignelli Associates and (left) Michael Bierut, a vice president.

The march of events across the pages of *Nation's Business* since its first issue 73 years ago has included World War I, the boom and bust of the 1920s, the New Deal, World War II, the postwar boom, the technological revolution, the vast social changes of the 1960s and '70s, the changing role of America in the world marketplace, the Reagan era and the age of entrepreneurship.

How does a publication remain a major information resource for business over such a long period and through such awesome changes? The key is the ability to remain contemporary, to anticipate and prepare for trends, to remember that business and business people are dynamic forces that shape, and are shaped by, the events around them.

Those forces affect us, too. We must rethink constantly the most effective ways to gather, write and package information to make it relevant and useful in the fast-moving world of American business.

It is time for change. In our next issue, to be exact.

In September *Nation's Business* will introduce a graphics redesign and new editorial features to create a more contemporary, more attractive, more readable, better organized and more useful business information package.

The redesign was done by Vignelli Associates, of New York City, whose bold, innovative work has won some of the most prestigious awards in the design field. The Vignelli

group has developed a strong, crisp, easy-to-read approach in keeping with the fast-paced needs of today's managers.

Along with the new graphics approach, *Nation's Business* will contain these new editorial features:

- "Innovators," in which the best and brightest of today's business people will describe the imaginative—and sometimes far-out—ways they meet their challenges.
 - "The Nation's Business," a roundup of Washington highlights with a business angle, an analysis of the economic trends affecting business people and a special report on small business.
 - "Making It," profiles of successful entrepreneurs and the techniques they used to establish and expand their businesses.
 - "Franchising," an insider's view of this increasingly popular fast track to small business ownership.
 - "Direct Line," answers to readers' questions on management, entrepreneurship, government actions and other important subjects.
 - Expanded coverage of technology and its impact on the workplace.
- This will be a *Nation's Business* designed for the next decade, a guidebook to that exciting, tumultuous world of American business today and tomorrow. We'll meet you there.

Robert T. Gray
Robert T. Gray



ROBERT FRANDEN, MANAGER OF DISTRIBUTION SERVICES, HFC.

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LETTERS

Politics Not-as-Usual

Re: "Behind Those Political Donnybrooks" [July]. Any analysis of what is to come in American politics must take into account what is happening at the local level. For example, Berks County and the city of Reading have traditionally been Democratic. Yet, President Reagan carried the city in 1984, becoming the first Republican to do so since Herbert Hoover in 1928.

Berks County's legislative delegation is controlled by Republicans, 4 to 2, for the first time in the county's history. Pennsylvania's Republican governor and two Republican U.S. senators have received good local majorities in recent elections.

The county's voter registration rolls still show a 7 to 5 Democratic majority, but they retain that edge only on paper.

All of this may reflect a true realignment that has been under way for years and is now beginning to show up at the county and city levels.

EARL F. PATTERSON

Treasurer

Berks County Republican Party
Reading, Pa.

The price of "reform"

I appreciated, as I am sure your other readers did, the comparisons of the various tax reform proposals ["Focus on Tax Reform," July].

Your table, however, misstated one provision in the Bradley-Gephardt plan. Unlike the other major proposals, Bradley-Gephardt would not retain the current exemption for employer-paid health insurance.

CRAIG A. PALMER

Public Information Counsel

American Dental Association

Washington

The face is familiar, but...

Joseph Sutter has a big smile on his face on page 69 of your April issue [Technology at Work]. Is that because you transferred him from Boeing Commercial Airplane Company to International Business Machines Corporation?

BUCK BARLOW

President

Micro-Surgical Technology, Inc.

Kirkland, Wash.

Editor's note: The photo caption inadvertently reversed the corporate affiliations of Sutter—who works for Boeing—and Bob O. Evans, who works for IBM.



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Basking in the Sunburst

FROM TIME immemorial, historians and philosophers have amused themselves and educated the rest of us by reflecting upon the sunburst theory of human genius. My thought is that Western civilization, and especially the United States, is in the midst of one of those sunburst periods now—but this explosion, I suggest, is a different kind of explosion. Whole new worlds of science are opening all around us.

The sunburst theory, never satisfactorily explained, must have impressed even the most casual student of history. Think back for a moment, if you will, to the period identified with Pericles of Athens. Nothing much in Hellenic history prepares us for the appearance of Aeschylus around 500 B.C. Suddenly he is there, and in an astonishing array we meet Euripides and Sophocles and Aristophanes. Plato will soon be along, and Aristotle behind him. For a marvelous century genius flowers in profusion. Then the Golden Age yields as abruptly to the Peloponnesian wars. In 338 Philip of Macedonia arrives, and it is all over.

The sunburst moves to Rome. How do you account for the grandeur that was Rome? Packed into a short span of time we see an unparalleled explosion of law, statecraft, oratory, engineering, the martial arts. Great names leap quickly to mind: Cicero, Virgil, Livy, Horace, Ovid, Seneca, Julius Caesar, Antoninus Pius. The Roman empire flourished magnificently, and then, as Gibbon tells us, "the stupendous fabric yielded to the pressure of its own weight."

Over Europe the darkness falls. For almost a thousand years, relatively speaking, nothing happens. Then, boom! A sunburst strikes Florence. Giotto! Petrarch! Boccaccio! The Renaissance has begun. Michelangelo is at work, and Leonardo da Vinci, Della Robbia, Titian, the Bellinis are making beautiful things. Then the sunburst moves. England: Spenser, Shakespeare, Marlowe, Milton, Newton. The sunburst subsides, and 150 years pass by.

We know the next chapter.

Look at Great Britain's colonies—the colonies that would become the United States of America—from the birth of Washington in 1732 to the death of Calhoun in 1850. In the universe of statecraft, was there ever such a galaxy as this? Washington, Jefferson, Adams, Hamilton, Madison, Pendleton, Wythe, Mason, Marshall, Franklin, Morris, the Pinckneys of South Carolina, the Randolphs of Virginia. We think of Tom Paine and Patrick Henry. And across the sea Edmund Burke is writing one of

the masterworks of conservative thought, "Reflections on the Revolution in France."

The brilliance dims. An occasional flicker of genius comes along: Lincoln here, Disraeli there. And then the sunburst appears in a different form and in a different place. We are in France, the France of the Impressionists, and the world of art glows with the work of Manet, Monet, Degas, Renoir, Pissarro, Cezanne, Gauguin, Seurat, Van Gogh. Where did they come from? The breed vanished around 1920. In the ensuing 65 years only a handful of painters and sculptors—those whose work is likely to endure for centuries—has appeared in the world of art. A few outstanding dramatists and novelists have come along, but they have come along singly. They have not come in explosive clusters—not at least in art, music, statecraft, jurisprudence, poetry and prose.

But, ah, consider the sunburst in science.

I was born in 1920. In terms of medicine, transportation, communication, agriculture, in almost everything that affects everyday living, the changes within my lifetime can be characterized only in hype words: stunning, dramatic, marvelous. Laser surgery is not a change in degree, but a change in kind. New tools of diagnosis qualify as fantastic advances in the field.

Who could have imagined a period in which we would see organ

transplants and artificial hearts?

In the period of only a few decades, we have witnessed satellite communications, space travel, the silicon chip, the age of the computer. My own business, the newspaper business, sat still for 500 years after Gutenberg invented movable type. Now we have cold type, and the printing business shares in the sunburst glow.

WHAT IS DIFFERENT about the current explosion of genius is that it is a collegial or collective explosion. We identify few individuals as such—Einstein, of course, and such figures as Edison and Bell, a few towering figures in genetics, biology and chemistry. Not many names are widely known, but the phenomenon of genius is clear. These are exciting times.

Those of us who have been dragged blinking and struggling into an age when words are not written, but rather processed, naturally have misgivings. I am not sure that all these marvelous new chemicals are all that marvelous for the ecosystem, but when sunbursts come along, they make history. We're in the surge of a sunburst now. ■



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Harder-Working Inventories

By Gerald W. Padwe, C.P.A.



Businesses with inventories will find mixed blessings in the Reagan administration's tax reform proposal announced in May.

The good news is that for taxable years beginning after 1986, businesses would obtain substantially greater flexibility in inventory accounting methods. The bad news is that some overhead costs would have to be shifted to inventory rather than deducted currently.

One option under the administration plan would allow businesses for the first time to use last-in, first-out (LIFO) inventory for income tax purposes without having to use the LIFO method for financial statements. A second option would be an indexed first-in, first-out (FIFO) method. Or they could continue using regular FIFO.

Details about indexed FIFO are sketchy, but it appears taxpayers could apply an inflation index (such as the consumer price index) to their beginning inventory in a given year. The adjusted beginning inventory—indexed to an average inflation rate for the country rather than an industry-specific rate (as under the LIFO method)—would then be added to the cost of goods sold. Closing inventory would be valued at FIFO cost without inflation adjustment. Result: a larger tax deduction for the year.

The method a company chose would depend on final details of the administration's plan that have not been released yet.

Some taxpayers might be more inclined to use LIFO if the legal require-

ment for financial statement conformity were repealed. But if they use LIFO even in that case, the LIFO reserve—the difference between LIFO and FIFO inventory—would still be taxable if the inventory were sold or the company liquidated.

Taxpayers now using FIFO would probably elect indexed FIFO unless they thought the national inflation rate would be significantly less than the actual inflation of their inventory. Even then, the adoption of LIFO to benefit from their expected higher rate of inventory inflation would raise the specter of an eventual tax on the LIFO reserve.

That means LIFO taxpayers who have a significant LIFO reserve would not switch to indexed FIFO, because the administration's proposal would tax the reserve evenly over six years.

A number of additional overhead costs would have to go into inventory under the proposal. Among them: state and local taxes on assets used in production, all depreciation, pension and profit sharing contributions and other employee benefits, and factory administration expenses. Those would include allocable costs of personnel, payroll, purchasing, accounting, data processing, security and legal departments.

Unnatural Planning

Although most executives are aware that the President's plan would repeal the investment tax credit and lengthen depreciable lives, the effective date could lead to some unnatural planning. Both changes would be effective for property "placed in service" after 1985, which means that property placed in service before 1986 will qualify for investment credit and accelerated cost re-

covery system (ACRS) depreciation deductions.

Businesses planning to buy new equipment in the first quarter of 1986 should consider accelerating these purchases—and deliveries. Equipment that has been received and is available for use during 1985 should qualify for the investment credit and ACRS no matter what happens on tax reform, even if you do not pay for the equipment until 1986.

Long-Term Contracts

One of the most controversial issues addressed in TEFRA—the Tax Equity and Fiscal Reform Act of 1982—was accounting for income from long-term contracts. Congress moved to prevent companies from artificially combining several contracts so that expenses could be deducted currently while taxable income was deferred to the end of the last contract. That could put off the time for paying tax for several years.

TEFRA prohibited added costs from being deducted in such aggregations, so that income was more accurately reflected. During the debate about what costs could be deducted, the most intense battle was fought over interest costs. Industry won, and taxpayers were allowed to continue deducting interest currently.

The President's plan contains uniform rules for capitalizing production costs that would apply to long-term contracts, self-constructed assets and timber.

For "cost plus" or federal contracts, expenses reimbursed under a contract would not be deductible. And perhaps even more important, interest on any property with a production period of two years or longer would have to be capitalized.

The production period would begin with production and end with contract completion, but it is not clear when the period ends in multiple-unit contracts. Under a contract to produce five airplanes, for example, would the production period end when each airplane is ready for service, or when all five are ready?

If the production period ends only when the contract is complete—when the income is recognized—this provision has real bite.

GERALD W. PADWE is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

WASHINGTON LETTER

► WHITE HOUSE IS MOVING AGGRESSIVELY to bring fiscal policy issues back to foreground after hectic period dominated by global issues. President Reagan appeals to business leaders for help in breaking congressional stalemate over budget resolution, seeks ways to end complaints about his tax reform plan.

► BOTH ISSUES HAD SLIPPED toward back burner in furor over seizure of TWA hostages, Walker spy case, slaying of U.S. Marines in El Salvador, outbreak of terrorist bombings in many parts of world. Other effects of incidents: heightened congressional concern over status of U.S. military intelligence capabilities, easing of Pentagon's problems stemming from earlier disclosures of waste, poor fiscal management on many projects.

► DESPITE RENEWED CONGRESSIONAL interest, outlook remains uncertain for tax, budget issues. Long Senate-House stalemate over terms of spending resolution designed to cut deficit has diminished prospects that work on budget will be completed by start of new fiscal year October 1. Resolution setting overall spending goals only one factor in complex fiscal situation. Individual appropriations committees still hold responsibility for determining level of outlays for specific programs, and debate over cutbacks in many areas moves to those panels after clearing of main resolution.

► ON TAX REFORM FRONT, impact of big sendoff White House gave its long-awaited plan is being diluted in congressional hearings on individual proposals. Opposition surfacing in many quarters, including business groups worried that proposals to increase corporate taxes would hamper growth by diverting investment funds from private sector. Long debate ahead on those parts of tax plan. Widely held business

view expressed to House Ways and Means Committee by U.S. Chamber of Commerce: "The administration's proposal must be improved to assure that it enhances economic growth in order to continue the spurt in the economy begun by the 1981 [tax] law changes."

► ADVOCATES OF TWO STRINGENT methods of restraining federal spending--the line-item veto and balanced budget amendments--still fighting those battles. There's still a lot of life in both causes. Senate Rules Committee has sent to floor for action a bill that would allow President to use the line-item veto without waiting for the lengthy amendment process. At present, he must accept or reject appropriations bills as a package, even though he objects to individual provisions. Backers of legislation to permit line-item veto through legislation say bill would satisfy provisions of Constitution. They say process is only way to weed out excessive spending items. Critics argue that line-item approach puts too much power in President's hands.

► FUTURE OF BALANCED BUDGET AMENDMENT still in hands of states. Big question is whether proposal to call constitutional convention to initiate such an amendment can gain approval of the two more states needed to reach 34, number needed to force Congress to call the first such conclave in the nation's history. Legislatures in Michigan and Ohio will vote sometime after Labor Day. Prospects that both will approve are uncertain at this point, but if one state approved and the calling of a convention depended on adding just one more, Congress would be under enormous pressure to approve amendment on its own. Prospect of a citizen-run convention with power to recommend constitutional amendments to the states is not a particularly attractive one to legislators.

WASHINGTON LETTER

► **EXPORT ADMINISTRATION ACT**, finally passed after 2½-year effort, will remove government controls on exports of many lower technology products, while maintaining Defense Department scrutiny of shipments of high tech goods that might eventually wind up in hostile hands. Business people in export field say impact of law remains to be seen. First clearcut signal will be terms of proposed regulations drafted by various federal agencies to implement statute.

► **NEW IMMIGRATION BILL** introduced by Sen. Alan Simpson (R-Wyo.) would make it unlawful for employers, union hiring halls and others to hire, recruit or refer illegal aliens for jobs. Unlike Simpson's last effort, this bill has support of business because it does not contain requirement that employers maintain extensive records on job applicants. Under latest version of bill, recordkeeping would be voluntary. Employers who keep records will be presumed innocent unless proven guilty on charges of knowingly hiring undocumented aliens. An employer who does not keep records and is later found to have hired illegals would have to prove he did not do so knowingly.

► **ORGANIZED LABOR'S LOSING STREAK** has been extended. Latest setback is U.S. Supreme Court decision allowing workers to resign from unions during strike or when one is imminent. Unions generally had barred such resignations under National Labor Relations Act provision giving them authority to set own rules on "retention" of membership. In 5-4 decision, Court said that section of law was not intended to prevent voluntary resignations. Business welcomes ruling, notes that inability of workers to resign from union and return to job during strike has often been factor in prolonging work stoppages.

► **ANOTHER BIG LOSS FOR LABOR** was decision by the National Labor Relations

Board reversing 30-year-old standard for employer questioning of workers when a union organizing drive is under way. Earlier holding had barred all such interrogation. Board now holds that questioning is lawful if it does not involve threats or any other type of coercion.

► **SUCH DECISIONS BY NLRB** have made Chairman Donald Dotson a major target of organized labor and have triggered recurrent rumors that administration will ease him out as peace offering to AFL-CIO. Sen. Jesse Helms (R-N.C.), a key supporter of Dotson, reports trying to track down source of such rumors. He says he was told by high White House officials that "administration has no plans to replace Mr. Dotson. He is widely respected for his contributions to restoring a more balanced treatment of labor-management problems."

► **BUSINESS COMMUNITY** mourns death of longtime colleague Arch N. Booth, 78, chief operating officer of U.S. Chamber of Commerce from 1950 to 1975. Except for two years working for a bank right after college, he spent his entire professional career in chamber work, beginning in his hometown of Wichita, Kans., in 1929. He came to U.S. Chamber in Washington in 1943, was named in 1950 to top staff job (then titled executive vice president, later president). After retirement, he returned to Wichita. Family asks that remembrances be made to memorial in his name at First Presbyterian Church in Wichita.

► **FEDERAL SHARE** of research and development spending is growing. Companies spent \$42.5 billion of own funds on R&D last year--gain of 8 percent--while federal outlays went up 11 percent, to \$20.4 billion. Trend has been evident since 1981. More than three quarters of federal R&D funding goes to companies making aircraft, missiles and electrical equipment.

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India Opens Import Doors

INDIA'S Prime Minister Rajiv Gandhi is seeking imports he says are essential to carry his country into the technological age. For decades one of the most protected markets in the world, India is now openly appealing for a whole range of high and medium tech goods. The potential market for American business is enormous.

The challenge also is enormous. India remains one of the poorest of nations, with a yearly per capita income of about \$260, a tenth that of Mexico. American exports last year to the tiny city-state of Singapore were more than twice the value of the \$1.6 billion worth of goods sold to India.

And, despite the relaxation of restrictions on some imports, India continues to shield its established industries from foreign merchandise, particularly consumer wares.

Nonetheless, Gandhi left the clear impression with business and government leaders during his June visit to Washington that India is more open to business than ever before.

"India today," he said, "is looking ahead to changing from an agricultural and basic industry-type society into an information-handling and information-based society." He added, "To achieve this, we need all the help we can get."

The stereotype of India as an economic nightmare is dated, American observers say.

Says Caroline Beeson, director of the India-U.S. Business Council: "It's important for the American business community to realize there are two Indias. One is the village that's barely self-sufficient. The other is the important and growing middle class in a large number of urban areas. It constitutes a ripe and growing market of people who are hungry for better products. They have been buying poor quality domestic goods at high prices."

An estimated 10 percent of India's 762 million population is both salaried and urban-dwelling.

Richard Harding, an expert on India at the Commerce Department, says:



India welcomes high tech products it needs to modernize its economy, Prime Minister Rajiv Gandhi tells U.S. business.

"There are many more opportunities for business than in the past. It is worthwhile for American businesses to take a new look at India. But it is important for these firms to do their homework and work with Indian partners who are familiar with their government's complicated regulations and policies."

WARNS HARDING's colleague Jeffrey Johnson: "U.S. companies should also be aware that the Indian bureaucracy moves at its own pace and that communications within India are difficult. As a result, business transactions do not always move at the speed to which the U.S. company might be accustomed. A loss of patience can jeopardize the personal relations between the U.S. principal and its agent or client."

A recent Commerce Department study of the Indian economy says American exporters "have not generally been fully alert to the beneficial changes in the Indian business environment."

The department reports that foreign competition is already rushing into markets where American companies should be making sales.

Gandhi's reform initiatives stress import liberalization in areas that will help develop Indian industry. The Prime Minister encourages exporting firms to form business relationships with Indian entities to accomplish this.

The best sales prospects are in the following industrial sectors, says the Commerce Department:

- Oil and gas field machinery.
- Power generation, transmission and distribution equipment.
- Telecommunications equipment.
- Mining and excavation machinery.
- Computers.
- Metalworking equipment.
- Printing and graphic arts equipment.
- Medical instruments and health care equipment.
- Chemical and petro-

chemical plants, machinery and equipment.

- Electronics industry production and test equipment.
- Pumps, valves and compressors.
- Process control instruments.
- Food processing and packaging equipment.
- Alternative energy equipment, along with services and engineering.
- Industry and laboratory scientific and analytical equipment.
- Leather processing and finishing equipment.
- Consulting engineer services.

Observers of Indian politics and economics say Gandhi's reforms will not be easily implemented. Though India has been making notable strides in GNP growth, there are bottlenecks in the country's transportation and communications systems and its energy transmission. There is also strong political resistance from the left, which distrusts free enterprise.

Most agree, though, that Gandhi has made a bold, promising beginning.

—Henry Eason

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About the Author . . .

Howard Raiffa has been at Harvard since 1957 and holds the Frank P. Ramsey Chair in Managerial Economics, jointly sponsored by the Graduate School of Business Administration and the Department of Economics. He is a frequent consultant to industry. As one of the outstanding pioneers of decision analysis, Dr. Raiffa has authored a number of major books on the subject.

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Mixed Reviews for the Tax Plan

The administration's tax reform plan is getting mixed reviews from small business groups.

While praise is running high for tax rate provisions, there is dissatisfaction with those dealing with accounting, employee benefits and capital formation.

Lowering individual tax rates would be a boon to owners of small unincorporated firms since they report their busi-

ness income on personal tax returns, says Walter Galanty, chairman of the Small Business Legislative Council. The council is a coalition representing small firms in various fields.

Under the cash method, income is only taxable when received, and deductions cannot be taken until payment is made. The accrual method requires taxation of income and deduction of expenses in the year when the right to receive that income or make the payments becomes certain.

Koenig, who calls the proposal "excessively harsh," says many small firms are "ill-equipped" to handle the accrual method, since it "requires a more sophisticated accounting system" than they have. Benefit proposals are also under attack. Small business "would have a significant disincentive to establish retirement plans," says Herbert Liebenson, executive director of the National Small Business Association. Complex rules and plan limitations pose too many burdens for small firms, he adds.

Other areas of concern are the proposed elimination of state tax deductions, except on corporate returns, and repeal of the bad debt reserve, the investment tax credit and income averaging.

Recently, President Reagan invited 18 small business owners to the White House to discuss their individual concerns regarding his tax proposals.

The outcome was a strong small business endorsement for the concept of general tax reform, according to one invitee, Frank Morsani, president of Precision Enterprises, Inc., Tampa, Fla.

But Morsani, who is also chairman of the U.S. Chamber, says no support was forthcoming specifically for the President's tax plan.

Encouraging Entrepreneurs

A perceived need to encourage new business ventures has prompted Reps. Parren Mitchell (D-Md.) and Ed Jenkins (D-Ga.) to introduce the Entrepreneur Incentive Act.

Mitchell, chairman of the Small Business Committee, says no other tax plans now being considered address incentives for business startups.

Key provisions of his bill:

- A taxpayer deferral of capital gains taxes when proceeds are reinvest-

ed in a qualified small business (one that meets size standards under the Small Business Act of 1958 and the Internal Revenue Code). The maximum deferral would be \$125,000.

- An up-front deduction for taxpayers who invest in a qualified small business.

- An ordinary loss rather than a capital loss deduction for investments in a small firm.

- An allowance to qualified small corporations in the form of a deduction up to \$50,000 for dividends distributed to shareholders.

A plus for the bill, says Mitchell, is that it is "compatible with other tax reform measures."

Worth Noting

- The Travelers Companies Foundation is pumping \$100,000 into the Connecticut Small Business Development Center, matching a grant from the Small Business Administration. Some of the funds will go toward setting up a joint venture program with the Hartford Economic Development Corporation to help women entrepreneurs. Travelers, an insurance giant, is built on a base of 10,000 small independent insurance agencies.

- The Seventh National Conference for State and Local Officials on Small Business will be held at the Park Plaza Hotel, Boston, October 23-25. Small business owners are welcome. For more information, contact the Small Business Administration's Office of State and Local Affairs, (202) 634-9341.

- A Dun & Bradstreet Corporation survey finds that more than one third of U.S. businesses expect to hire more employees this year than originally planned. The total of these additional hires: 2 million. Fifty-three percent of the hiring will come from firms with fewer than 100 employees.

- "Big Profits From Small Companies," a new book by small business management specialist Steven Popell, tackles concerns like credit and collection, setting up a sales territory and making it pay, choosing a loan officer, preparing a loan request, improving marketing's contribution to profit. It is available from Lomas Publishing Company, 625 Ellis Street, Suite 301-L, Mountain View, Calif. 94043. Cost: \$19.95.

—Mary-Margaret Wantuck



PHOTO BY MICHAEL NEZ

Keeping graduated rates in President's tax plan got kudos from the U.S. Chamber's Joel Koenig.

ness income on personal tax returns, says Walter Galanty, chairman of the Small Business Legislative Council. The council is a coalition representing small firms in various fields.

Joel Koenig, a member of the U.S. Chamber of Commerce Small Business Council and a partner in the accounting firm of Touche Ross & Co., recently told a House subcommittee that the provision to retain graduated rates for small corporations is "essential." Corporations would be subjected to graduated rates of 15, 18 and 25 percent until they reached an income level of \$75,000, at which point a flat 33 percent would apply. Now there are graduated rates of 15, 18, 30 and 40 percent; a flat rate of 46 percent starts at \$100,000.

Drawing strong criticism is a proposal to force businesses to use the accrual method of accounting instead of the cash system if they have average annual gross receipts of more than \$5 million or regularly employ any other accounting method in applying for credit or reporting to shareholders or partners.

Staking Claims in the PC Market

Two lesser-known personal computer companies with strong European financing and an intertwined background are staking claims to a share of the American small- to mid-sized business market.

Their products are called Apricot and Victor. Apricot, Inc., is an affiliate of a company that makes best-selling personal computers in Britain. Victor Technologies, Inc., is a 67-year-old U.S. office machines company.

Although Apricot and Victor have nothing to do with each other, their

concerns and restoring them to profitability.

Throughout these changes Victor continued to make and service its line of desktop calculators and electronic cash registers and computers. It has a widespread dealer organization and many corporate contracts, among them one with the Ford Motor Company. Recently it announced several new computer models of even more advanced specifications. It also filed a \$1 million damage suit against the Tandy Corporation for showing the Victor 9000 in an ad as one of a number of "discontinued orphan" computers.

Victor's sales last year were about \$100 million, and its president, Eric Haas, says the company's five-year goal is to increase sales to \$300 million.



Victor Technologies, Inc., manufactures advanced personal computers at its Scotts Valley, Calif., plant. It was rescued from bankruptcy this year by Swedish investor Mats Gabriellson, 34.



computers share common roots, and their goals are similar. The two companies' computers derive from a technologically advanced design, the Sirius, which at one time was the biggest-selling micro or personal computer in Europe.

Victor, long known for its adding machines and cash registers, merged with Sirius several years ago and began marketing the computer in the United States as the Victor 9000. Last fall, after rapidly expanding its facilities and then encountering disappointing sales, Victor declared bankruptcy. The firm was rescued in February by Swedish investor Mats Gabriellson and his Datatronic Company, which has specialized in taking over bankrupt high tech

Apricot, Inc., was established in the United States last November to market Apricot computers produced by its British partner, Applied Computer Techniques.

ACT formerly was the distributor of the Victor/Sirius computer in England. When Victor set up its own distribution network, ACT went into manufacturing and in 1983 began turning out the Apricot, a machine similar to the Victor in some ways—notably its high resolution screen.

Apricot's goal is to sell 15,000 machines in the United States this year and increase that in three years to 70,000 or 1 percent of the market. Apricot Communications Director Patricia Meier says Apricot uses an MS-DOS

operating system and sees IBM as its main competition although its product is "more similar in innovation and excitement to Apple's Macintosh." Apple has been selling more personal computers (36 percent) than IBM (30 percent), but IBM's more expensive machines bring in more dollars (39 percent) than Apple's (26 percent).

Apricot has taken over the outside sales organization dropped by Apple last year and expects to have 500 retail outlets by the end of the year.

New Products

Digital Equipment Corporation dealers now carry a software package by Care Information Systems, Inc., that will handle billing, patient history and dozens of other office functions for doctors and dentists.

Information Research Services, of Ann Arbor, Mich., is producing customized reports on government contract solicitations; they are sent to clients by electronic mail the day after each government announcement.

National Decision Systems of Encinitas, Calif., is marketing a stand-alone system that will furnish instant marketing and demographic information on any location in the United States. It uses a personal computer and a laser-optical disk for data storage that holds the equivalent of 250,000 printed pages. Databases are updated yearly.

Advanced Computer Communications, of Santa Barbara, Calif., has software that provides direct access to a high speed Xerox printer from a Digital minicomputer; it is for customers with high volume printing needs.

Electronic Systems Technology, of Kennewick, Wash., which makes a wireless modem (a computer connection device using radio signals), has added a portable wireless computer to its line. Using the computer, a salesperson in the field can punch in an order directly to his office or call up data he needs without going to a telephone and trying to get through. Maximum range is said to be 30 miles.

Control Data Business Centers have new software for accounting departments of midsize corporations giving users with IBM microcomputers a two-way link to giant mainframe computers. It puts the power of a mainframe on a manager's desk, Control Data says.

—Harry Bacas

Why Hasn't a Rise Followed a Fall?

Falling interest rates usually signal a rising economy ahead. After a yearlong plunge in interest rates, however, the economy still seems stuck in the doldrums. Economists are inevitably asking themselves why the economy is so slow in responding to falling interest rates and when it will start growing again.

Nobody knows the answers to these questions, but economists are coming up with possible explanations.

Robert Genetski, Harris Bank & Trust Company's chief economist, says that for the 70 years statistics on such things have been kept, every rise in the stock of money and credit—an event that brings down interest rates—has resulted, after a lag, in a rise in private sector spending. The problem is, he says, that "the lengths of those lags are not always predictable."

Ten months have elapsed since the Federal Reserve Board started pumping money into the economy. Usually, it takes about six months before the economy responds to a prolonged infusion of credit, Genetski says, but the lag can take up to a year. Since last October the stock of money available to spend or borrow has increased at a 10 percent annual rate—about two thirds faster than usually needed to sustain noninflationary economic growth.

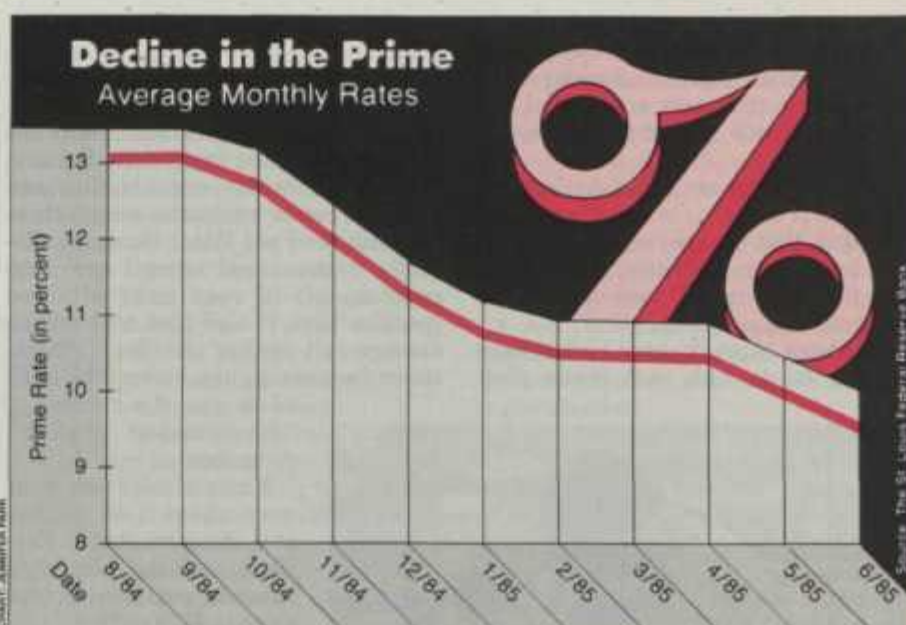
Based on that high rate of money growth, Genetski expects the economy to grow at an annual rate of 5 to 6 percent in the year's second half, while consumer prices increase between 4 and 5 percent.

By comparison, the economy grew at an annual rate of less than 2 percent in the first half of the year; consumer prices moved up at a 3.6 percent annual rate. (Producer prices rose less than 1 percent.)

Genetski says the long lag may be explained by the inordinate uncertainty caused by various proposals before Congress to reform the tax code. "Business does not like to make an investment unless it is reasonably certain what the return will be," he says, adding that some investment has been postponed until the air clears.

Another explanation frequently given for the economy's slow response to falling interest rates: The strong dollar is causing manufacturers to trim production because of aggressive pricing by foreign competitors.

John A. Tatom, a St. Louis Federal



Reserve Bank economist, says in a study that the facts do not support that conclusion.

Tatom studied three periods: the nine months ending last March; the five years since 1980, when the dollar began to go up in value; and the period between 1947 and 1979. He compared the rise and fall of manufacturing output to the overall economic growth rate in each period.

"Over the past three quarters, or the five years since the dollar began appreciating sharply, manufacturing output growth has been slightly stronger than its previous 32-year relationship to real gross national product would indicate," Tatom says.

To Grow or Not To Grow

Are the Reagan administration's tax proposals pro-growth? Economists disagree.

Edward Guay, CIGNA Corporation's chief economist, sees strong incentives for growth. He says that if most of the proposals are enacted, "the 'normal' level of interest rates in the country should fall sharply." Companies that will benefit most, he says, are those that "depend on operating cash flow rather than tax subsidies," and "have suffered from the high real cost of credit." Other benefits, he says, would include a sharp improvement in the U.S. trade balance and higher profits on existing industrial capacity.

A study by economists at the Center for the Study of American Business in St. Louis takes a different view. It concludes that enactment of the Reagan proposals would raise the cost of capital, depress the value of real estate and increase federal borrowing an estimated \$54 billion over the next five years.

In addition, the study says, economic output would be reduced by \$77 billion over that period.

The study's authors, Joel Prakken, Laurence H. Meyer and Chris P. Varvares, conclude that existing incentives for capital formation are more important to business, in the short run, than are the benefits from lower tax rates. The advantages of lower overall tax rates become more important in the longer run, they say.

In the meantime, Allen Sinai, Shearson Lehman Brother's chief economist, issues this near-term economic forecast:

Interest rates will continue to drop—the base lending rate will fall to 9.25 percent by year end. Auto sales will remain strong, with production at an average annual rate of 10.5 million units, compared with 11 million in the first six months.

Falling mortgage interest rates should produce a slight pickup in housing construction in the second half of the year. Wage costs will continue to be subdued. And the price of oil will drop slightly by December.

—Peter A. Holmes

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CITY OF PHOENIX, OWNER
AMERICAN TRANSIT CORP., OPERATOR

IN PHOENIX, a small, private company handles landfill operations at a saving of more than \$1 million a year to the city. In Imperial Beach, Calif., volunteers need only \$12,000 a year in taxpayers' money to run a city-owned recreation center.

Management of parking enforcement for 70 cities, including Philadelphia and Washington, is provided by Datacom Systems Corporation. A subsidiary of Pan American World Airways runs the busy Westchester County, N.Y., airport.

Frustrated by its inability to collect delinquent loans from students, business people, farmers and others who have borrowed from the U.S. Treasury, the federal government has turned to private debt-collection agencies to recover some of the \$21 billion overdue on loan repayments.

Boston University has offered to run the long-troubled public school system in its home city. An increasing number of private delivery services are challenging the U.S. Postal Service's monopoly on first-class mail.

Those developments are representative of an intensifying and highly significant privatization trend in government at all levels across the nation, a trend that has a double benefit for business. The prospect of reduced taxes is one of privatization's major advantages to business. The other is the direct opportunities it offers to provide, at a profit, services now performed by government employees (see box, page 23).

An added impetus for companies seeking opportunities via the privatization route is the public's overwhelming support for the concept. In fact, there is a substantial segment that would carry privatization to lengths not generally envisioned by the present supporters of the movement.

Nearly 20 percent of the respondents in a poll conducted by the Roper Organization responded affirmatively when asked if it would be a good idea for government to contract with private industry for management of the nation's armed forces. And 22 percent said it would be a good idea to let private busi-



Taking Public Services Private

A growing trend cuts government costs.

By Peter A. Holmes

ness run local law enforcement operations. While there are no serious suggestions that private business run the Pentagon or take over crime investigations, the privatization movement is becoming an important aspect of the American scene.

John Naisbitt, author of the best-seller *Megatrends* and an authority on national trends, says that privatization "is sweeping the country" and that public support for it is evidence of profound change.

"Privatization," Naisbitt explains, "is part of the process of rethinking the welfare state. Society is searching for new ways of delivering services because of our collective sense of efficiency. The entrepreneur, not the bureaucrat, is the hero of society. While we can't be sure how it will all turn out, privatization will be part of the emerging post-welfare state."

Stuart Butler, a privatization expert

for the Heritage Foundation, puts it this way:

"The reason that privatization... has aroused such interest recently is that it seems to offer a solution to the problem that confronts many politicians seeking to reduce government spending. The anger of someone denied a government service is always greater than the gratitude of a taxpayer when savings are made. By providing the option of a similar, or even superior, service from the private sector at less cost to the taxpayer, privatization allows the legislator the chance of satisfying both constituencies at once."

Frank Sellers, director of the Business Alliance on Government Competition, based at the U.S. Chamber of Commerce, adds: "The private sector is simply seeking the chance to compete with government-performed activities. Business is used to taking its chances in the marketplace, whereas govern-



PHOTO: T. MICHAEL REZA

Transportation, security, sanitation—three public services that businesses provide in Phoenix. Barbara Jean Smith is an American Transit bus driver; Arthur H. Weese is an Anderson Agency guard; Raymond L. Meyer is a Waste Management trash collector.



ment has become inefficient because it is a monopoly. What the executive and legislative branches of government sometimes lose sight of is that the federal government should make use of every opportunity to service its citizens at the least possible cost, while performing necessary services."

A study by Ecodata, Inc., supports the view that privatization can lower costs. The New York research firm compared costs of eight services when provided in eight cities by local government and by the private sector. The services: street sweeping, janitorial operations, refuse collection, payroll administration, traffic signal maintenance, repairs to asphalt surfaces, tree-trimming and lawn care.

Private businesses showed savings of 37 to 96 percent over government costs in seven of the eight services. The cities did better only in handling payrolls.

Today's surge of privatization began at the local level, largely as a result of the tax revolt that developed in the mid-1970s. The most highly publicized manifestation of that revolt was California's referendum on Proposition 13, which put sharp limits on local governments' power to increase real estate taxes.

The tax revolt erupted in many other parts of the nation in various forms. And even in the absence of referenda, many governments came under strong pressure to economize. The powerful combination of runaway inflation and sharp economic downturn in the late 1970s, plus major cuts in federal aid to states, were all factors.

An overview of the broad range of privatization efforts spotlights Phoenix as one of the nation's leading laboratories for programs involving the private sector in government services. Visitors from communities throughout the country stream into the Arizona city to learn how Phoenix has put privatization to work for its taxpayers. Private firms there operate the bus system, provide security and crowd control services, collect trash, sweep the streets, maintain traffic lights and street lights, tow and store illegally parked cars, operate mu-

Author John Naisbitt says the entrepreneur is society's hero.



PHOTO: SARY KAPLAN

nicipal parking lots, run the landfill and maintain grounds of public buildings.

City Auditor James Flanagan says the city saves \$2.3 million a year on 17 services provided by private contractors. It saves an additional \$3 million, he says, in costs that are avoided because city departments are required to bid against private contractors for the right to perform many municipal services.

This forces the government agencies to seek every operating economy. Flanagan says the city has as many as 30 people doing cost accounting. Both the city's public works department and private contractors, for example, submit sealed bids on five-year contracts awarded for trash collection. At any given time, trash collection might be performed in two service districts by a private firm and in two by the city department, all on the basis of low bids.

Raymond L. Meyer, an operations supervisor for Waste Management of Phoenix, Inc., says his company can pick up trash at less cost than the city because of its management skills and business experience. The Phoenix company is a unit of Chicago-based Waste Management, Inc., and Meyer says: "As a national company, the resources available to us are a lot more than what the public sector has."

Nationwide, Waste Management has contracts with 432 cities, another measure of the spread of privatization.

On the other hand, Phoenix Public Works Director Ronald W. Jensen says his department has learned a lot about

cost analysis of rubbish collection since a private firm won the first competition for a contract in 1978. The department failed in the next four bidding competitions but finally won a contract for itself last year, when it came in \$1 million under the next lowest bidder.

Jensen explains the turnaround: "Our people are really in a competitive mode. We have cut our costs way back because we have learned from the experience of private contractors. We have the unions convinced about the need to improve productivity."

Jensen's department is unionized, as is much of the city government.

The city once assigned three men to a collection truck. Now one driver drives the truck and operates a mechanical arm that lifts specially designed 30-gallon plastic receptacles, dumping their contents into the truck.

And instead of using regular police officers for security and crowd control at its civic center and other city-owned buildings, Phoenix contracts that service to Anderson Agency, Inc., a local firm founded in 1977. Don Hesselbrock, the company's marketing director, says lower costs are not the only benefit the city receives from its private security force. "Our men are trained to prevent things from happening, while police of-

ficers are trained to stop crimes in progress or solve them after they have happened," he says.

Anderson uses part-time guards at many of the more than 150 events held annually at the municipal civic center, enabling the city to avoid use of highly trained police officers.

MASS TRANSIT is another area of major savings through the Phoenix privatization program. The American Transit Corporation, based in St. Louis, manages and operates the bus system for Phoenix, as it does for 20 other cities. Robert Hocken, general manager of the Phoenix system, says: "We run a tight organization. Every employee gives us a return on our money. Somehow, we don't miss those big bureaucracies the public sector has."

What kind of economies are involved? City and transit company figures show that private operation of the system saves the taxpayers an eye-popping 62 percent over what it would cost the city to provide the service. That figure holds even though the city determines the quality of service, sets the bus routes and owns most of the buses.

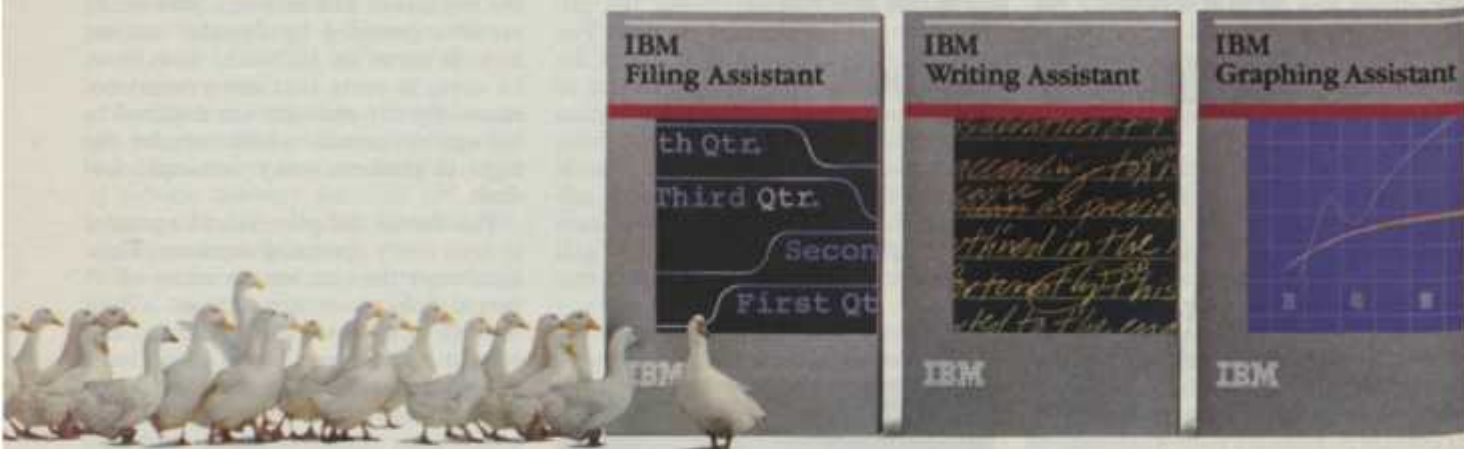
Southwest of town, alongside the dry bed of the Salt River, Oakland Scavenger Company runs one of two city land-

fills. The economy-minded family business has added 3½ years to the landfill's life. Its contract contains incentives for packing the most trash into the smallest space, deferring the point at which the landfill's capacity will be exhausted. City Auditor Flanagan says the arrangement with Oakland Scavenger saves the city \$1.3 million a year in direct costs, and the maximum use of available space provides a bonus in terms of deferred costs of developing a new landfill miles away.

Both the city and its contractors are highly pleased with the results of privatization in terms of cost reductions on the one hand and business opportunities on the other. But the arrangement has not been totally free of problems.

Mayor Terry Goddard recalls, "They got their pencils a little too sharp at one company that could not uphold their contract." The bankruptcy of a trash collection company that was not adequately capitalized taught the city to insist on bigger bonds and to pay more attention to contractors' financial resources, Goddard says.

While the government of a large city like Phoenix offers many opportunities for privatization, the movement is growing among smaller communities, also. Imperial Beach, a mostly residen-



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The nonprofit Boys and Girls Club (that's its director, John R. Clingan) runs the Imperial Beach, Calif., recreation department.

tial city of 25,000 in Southern California, was one of many California communities faced with a sharp decline in revenues as a result of Proposition 13. Since 1981, it has cut its work force 65 percent. City Manager Sherman Stenberg explains:

"It was out of dire necessity. Four years ago, we were concerned that Imperial Beach would have to declare bankruptcy. Proposition 13 cut property taxes by 60 percent—\$600,000."

How did the community keep functioning? For one thing, it turned its emergency medical service responsibilities over to Schaefer's Ambulance Service, a San Diego firm that has contracts with 16 other communities.

An agreement was reached with the nonprofit Boys and Girls Club of America, Inc., to take over operation of the community recreation center. The city pays the club \$1,000 a month to cover its wage and equipment costs, which are minimal. Residents volunteer large amounts of time and equipment to the recreation program.

A private company provides local bus

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service. Trash is collected by a firm that uses the same automated system that Phoenix does.

An outside engineer replaced a city employe in the job of designing public works projects. Maintenance in three city parks has been contracted out to private gardeners.

In another step, the city abolished its police department and contracted with the San Diego County Sheriff's Department for law enforcement services. Though this is not privatization, it is allied to it—part of the trend in which communities are going outside their own governmental establishments when they can obtain services for less.

Imperial Beach has a total of 47 contracts with private companies, nonprofit organizations and other area governments. The city manager says he is on the lookout for additional opportunities to shift services to the private sector.

Other examples of success in privatization can be found throughout the country. Gainesville, Fla., contracts with private companies for management and maintenance of city-owned vehicles. A private contractor runs the fire department in Scottsdale, Ariz. Business people are forming a limited partnership to build, own and operate a major water-storage facility for a metropolitan Washington regional government authority.

More than a dozen companies operate airport control towers or have taken over the entire management of smaller airports. Robert Poole, president of the Reason Foundation, points out that a private contractor took over operation

of the Farmington, N.M., airport tower for \$99,000 a year; the Federal Aviation Administration had been spending \$287,000 there.

Poole's California-based foundation was formed six years ago to promote private sector options for government services.

In New York City, badge-wearing employes of a private company patrol streets in search of cars with outstanding parking tickets. Computer terminals on the dashboards of these marshals' vehicles provide registration numbers of scofflaws' cars. The marshals, who work on a fee basis, are authorized to settle the unpaid account with a vehicle's owner, tow the vehicle away or immobilize it.

The project was launched primarily to track down owners of out-of-state vehicles that had been ticketed in the city. More than 17,000 such cars were spotted last year, and the city received \$4.5 million that otherwise might not have been paid. This year, in-state vehicles with unpaid tickets have also been targeted.

THERE IS ALSO a strong trend toward privatization at the federal level, but the entire issue is much more complex when it comes to Washington. The twin pressures of budget cutbacks and Reagan administration philosophy work on behalf of shifting government functions to the private sector, but bureaucratic inertia and self-interest work in many ways against it.

For example, the President's Council of Economic Advisers suggested that

the government get out of the business of allocating landing rights at airports and let the airlines buy and sell them. But the Federal Aviation Administration appears cool to the idea. And the FAA is sitting on a proposal backed by the council to hire private air traffic controllers at larger airports.

One stumbling block to privatization at the federal level is the Service Contracting Act, which controls wages that must be paid by private companies under federal contract. The act works against the type of savings on personnel costs private companies can achieve in privatization at the nonfederal level.

It can be done, however, even in Washington. D.K. Associates, of Rockville, Md., provides printing, graphic, administration, word processing and other services to the FAA, National Aeronautics and Space Administration and Defense Department under 14 separate contracts. Total billings range from \$4 million to \$5 million annually.

Jerry Kessenich, vice president of the six-year-old company, recalls that an early project involved audio-visual services that had been provided by 88 government employes at Lowry Air Force Base. "In our first year of operation we did 165 percent of what the government said we should expect," Kessenich says, adding it was done with only 35 people. "And within two years, we were able to cut that down to 29 people and still maintain the higher work load."

He noted that his firm bid \$750,000 for the Lowry job, which the Air Force had proposed to do itself for \$1.4 million. Says Kessenich: "We made a hand-

Oakland Scavenger Company saves Phoenix taxpayers millions by running a city landfill. Below: William Force and Georgette Pirtle of D.K. Associates, graphic designers, were on the Federal Aviation Administration payroll before their jobs at the FAA's Atlantic City, N.J., technical center were privatized.



some profit on that contract and provided much more service than the government ever did."

D.K. Associates estimates that 70 percent of its work comes from what, in federal jargon, are termed A-76 contracts. A-76 refers to a government directive requiring cost analysis of federal services to determine whether they can be performed at lower cost in the private sector.

Most federal departments are under orders from the Office of Management and Budget to survey their costs for 14 commercial-type activities: data processing and transcription, training, audio-visual services, food service, facilities maintenance, mailing and filing, architectural and engineering services, library operation, laundry, warehousing, vehicle maintenance, accounts management and loan processing.

Finding Out About Privatization

Here is a list of some organizations that can supply more information on the privatization of public services, and government contracting with the private sector.

- **Business Alliance on Government Competition.** Its members include the U.S. Chamber of Commerce, business trade associations and private sector labor unions. The alliance's primary mission is to push for enactment of legislation to encourage greater reliance by the federal government on goods and services provided by the private sector. For information contact Frank Sellers, 1615 H Street, N.W., Washington, D.C. 20002.

- **International City Management Association.** ICMA is the professional association of local government managers. It publishes statistics and conducts research on alternative ways to deliver municipal services.

For information write ICMA, 1120 G Street, N.W., Washington, D.C. 20005.

- **The Local Government Center.** LGC is a project of the nonprofit Reason Foundation. LGC maintains a database with information on more than 70 public services and the businesses and nonprofit organizations that perform them. LGC also publishes *Fiscal Watchdog*, a monthly bulletin on ways to cut the cost of local government. For information write LGC, 1018 Garden Street, Santa Barbara, Calif. 93101.

- **National Small Business Association.** NSBA surveys *Commerce Business Daily*, the federal government publication that announces proposed procurement contracts, and requests bid specifications for its customers. For information write NSBA, 1604 K Street, N.W., Washington, D.C. 20006.

Arlene Triplett, an associate OMB administrator, says the surveys will identify cost differences among government agencies in providing those services and show how some agencies are able to provide them more economically than others.

As a result, Triplett notes, the agencies would be in a better position to submit competitive bids against private contractors.

Over the next three years, OMB plans to review jobs of 115,000 government workers in commercial-type activities. Based on experience with similar reviews in the past, work done by 60,000 of them could end up in private firms.

Butler of the Heritage Foundation, a Washington-based, private think tank that has had a strong influence on the Reagan administration, suggests that the work of entire bureaucracies, such as the Health Care Financing Administration, be contracted out to the private sector as part of an overall strategy to eliminate the federal deficit.

The OMB review system is flawed, Butler says, because it is being conducted by individuals who are themselves government employees without strong incentives to turn activities over to the private sector. He suggests that an outside group with no stake in the current system would be more aggressive in pursuing privatization.

Such a group, Butler adds, could be modeled along the lines of the Grace Commission, which recommended ways to cut federal spending.

Meanwhile, the Reagan administration is leaning toward various forms of privatization that would include the voucher system for a number of social services. Recipients of those services would not receive them through normal government-agency channels but would be given vouchers for specified amounts of money. They could use the vouchers to obtain the services from sources of their choice—public or private.

There is strong support within the administration, for example, for a system under which vouchers would be issued to all school-age children and could be used at the discretion of the child's parents as payments to public or private schools. The funds public schools received through the voucher system would replace the current program of direct federal aid to such schools.

While both advocates and critics of the voucher approach view it as a radical proposal, the GI Bill that paid college education costs of millions of military veterans over the past 40 years is actually a massive voucher plan. In addition to education, public housing is

one of the principal areas in which use of vouchers is recommended.

Opposition of the National Education Association, the most powerful of the lobbies fighting to preserve the status quo in public education funding, has been the principal roadblock to implementation of any voucher plans. Another major labor organization unhappy with the concept of privatization is the American Federation of State, County and Municipal Employees. That union's ranks could diminish in direct proportion to the spread of privatization at those levels of government.

ALICE GRINDSTAFF, an AFSCME economist, says that contracting government services to the private sector is the result of bad management in government agencies.

"Let's avoid the whole situation," she says. "We can provide the services more efficiently through better labor-management cooperation."

Grindstaff argues that contracts with private firms may contain pitfalls for government officials. The pitfalls include, she says, hidden and unexpected costs, favoritism by government officials toward certain private firms, poorly drawn contracts, contract irregularities such as bid-rigging, risk of

contractor bankruptcy and public loss of control of what taxes go for.

But businesses see the issue far differently. Many are positioning themselves to take advantage of the market opportunities resulting from privatization. One is Combustion Engineering, Inc., of Stamford, Conn., a boiler manufacturer facing declining sales in the electricity-generating industry. The company has established an urban systems and services division to use its construction and management skills in three municipal service areas with strong potential for privatization: conversion of refuse to energy, water treatment and mass transit.

Dudley C. Mecum, president of the division, expresses confidence that Combustion Engineering can operate more economically and efficiently than government in providing such services: "Government has not had the discipline of the bottom line. Government is like a gas. It expands to spend the money available. Your gut tells you right off the bat that there has to be a more efficient way."

Mecum predicts resource recovery will be a \$20 billion market over the next 15 years, and mass transit will constitute a \$26 billion market over the same period. He reports that his compa-

ny is now negotiating with Detroit, San Francisco and a half-dozen other cities to construct and operate municipal waste-recovery plants.

E.S. Savas, a professor of management at Bernard Baruch College in New York, who launched studies of privatization as an assistant secretary of Housing and Urban Development, says that "the evidence in favor of privatization is becoming overwhelming."

Detroit's city government, he says, discovered it cost \$26 to process a \$15 parking ticket and contracted the work out to a private firm—whereupon the cost dropped to \$1.80.

The growing acceptance of privatization is also illustrated by the circumstances surrounding the renewed offer of Boston University to run the Boston public school system. John Silber, president of the university, recalls that the suggestion produced only an amused reaction when he first made it four years ago.

"Now," he says, "nobody is laughing." The reason for the changed response can be found in the recent history of what was once one of the nation's best public school systems.

ENROLLMENT DROPPED from 100,000 to 47,000 in 11 years amidst bitter controversy over integration. The per-pupil spending rate of \$7,000 is one of the highest in the nation, but Scholastic Aptitude Test scores are below those of the state, region and nation.

Silber, who won national attention as an outspoken conservative who rescued Boston University from near-insolvency, blames political interference and patronage for the city school system's problems. He has proposed that his university take over the system under a five-year contract, hire a superintendent and bring in financial, personnel and management experts. The university would be paid on the basis of cost reductions. Over time, Silber promises increased enrollment and improved test scores.

While the proposal presses the outer limits of what is generally considered the potential of privatization, growing public concern over the quality of public education might eventually lead taxpayers to conclude that the private sector does have a role in that field.

For the present, discussions of privatization will center on the view expressed by experts like the Reason Foundation's Robert Poole:

"The fact today is that government—local, state and federal—is involved in hundreds, if not thousands, of business activities in which it has no real comparative advantage and no basic reason for being involved."



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This Won't Hurt—Really

By Gary M. Kaplan



Transdermal patches contain medication that slowly enters the system through the skin.

PHIL M. used to dread his bimonthly business trips. They required long drives, often on winding highways. "Motion sickness got me every time," he recalls with a shudder. "By the time I'd get off the road, I'd feel incredibly nauseous."

Though anti-motion-sickness medications were available, Phil resisted taking them because they made him drowsy, endangering him behind the wheel. "I arrived at each destination in one piece, but I felt terrible," he says. "It was a no-win situation."

After one particularly harrowing drive, Phil read about a new form of motion sickness medication, designed to relieve symptoms without putting patients to sleep. It was delivered by a transdermal, a small "bandage" applied

to the skin directly behind the ear at least four hours before the beginning of a trip.

The dime-sized disc, Phil read, releases the drug scopolamine to the skin, where it is absorbed and passed directly into the bloodstream, providing protection from motion sickness for up to three days. Developed by Palo Alto, Calif.-based ALZA Corporation (the name is derived from company founder Alejandro Zaffaroni), Transderm Scop was, in 1981, the first marketed transdermal.

"I received a prescription for it just before my next trip and have used it successfully for over two years," Phil says. "I now drive in comfort and meet clients at their locations as comfortably as I meet them in my office."

Transdermals—medications one wears rather than swallows—are now available for the prevention and relief of chest pain due to angina pectoris, as well as to fight nausea. They have several advantages over oral medication that make them more effective, safer and easier for us to take, says Richard Guy of the school of pharmacy at the University of California, San Francisco.

"Tablets, capsules and pills must contend with the liver, the major organ in the body deactivating foreign materials," Guy explains. "Oral medicine is also destroyed by the microorganisms living in our gastrointestinal tracts. And our highly acidic stomachs reduce oral drugs' effectiveness."

But transdermal drugs, Guy points out, pass directly through the skin into our bloodstreams, bypassing our bodies' main deactivation centers.

Traditional oral medications release drugs at uneven rates, says Guy, causing sharply fluctuating drug concentrations within our bodies. An ordinary tablet, he explains, dissolves quickly after it is swallowed, releasing a large amount of drug almost immediately. The remainder is then delivered at a steeply declining rate, resulting in a peak-and-valley concentration of drug in the body that is repeated with each

dose. At their peak levels, drugs may cause side effects; at their lowest levels, they may not work at all.

"Transdermals, though, slowly leach drugs into the bloodstream, maintaining a steady state of medicine within the body, which lessens side effects," says Guy.

Conventional oral medication normally must be taken several times daily, and patients will skip doses or take them at the wrong times. But transdermals need to be applied only once daily or even once every several days. "This makes it simpler for patients, providing far better compliance with therapy," Guy says.

Transdermals controlling angina pectoris are the ones "making all the bucks," says Guy. Produced by three pharmaceutical companies, ALZA, Spertle and Key, each has initially been highly effective. Now, though, the Federal Drug Administration is questioning just how effective they will remain. There are reports by physicians of angina patients developing a tolerance to the transdermals.

IN ADDITION TO transdermals, there are other new ways we may take our medicine. Rather than relying on eye-drops several times daily to treat glaucoma, we may now place a thin, flexible wafer (developed by ALZA) under each of our eyelids once a week.

Containing pilocarpine, a drug long used for glaucoma treatment, the wafers very effectively control intraocular pressure, according to Guy. They provide round-the-clock therapy with no interruption at night, less frequent dosing (once versus 28 times weekly) and reduced visual side effects, such as blurring and stinging.

Says Carl G., who has glaucoma: "I'm in meetings all day long, and putting in drops every few hours interrupts my concentration, as well as that of my co-workers and clients."

"Rather than hassle with the drops, which often left me with stinging eyes, I would frequently skip doses. Ultimately, of course, this was self-destructive. Wafers provide effective glaucoma treatment, without the eyedrop hassle. They have meant freedom from worrying about taking medication and enabled me again to concentrate fully on my job."

GARY M. KAPLAN is a San Francisco free-lance writer.



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reliable, durable performance and low life-cycle cost. And since your GMC dealer has been computer-assisted in his CP specing, you may never get better order response. (CP units are often even available from dealer stock.) You'll also enjoy GMC's professional best in parts and service coverage.

"But what kind of choices do I get?" Again, plenty. To cover the wide range of truck applications in business and industry, there's a wide range of Customer-Proven specs. And when you select the CP truck specification that's right for you, you'll still have a great latitude within that spec. You're free to plus or minus almost every component except the engine/transmission/rear-axle package, and that package is thoroughly industry-proven.

You'll exercise great freedom of choice when you scan the lengthy list of Customer-Proven options. This will allow you to stay within CP



it for me?"

specs, enjoy the many benefits of the Customer-Proven system, and still customize your GMC truck.

"What else is in it for me?" You're one tough customer. But we're ready for you. General Motors is also what's in it for you.

GMC Truck is a division of a corporation with some pretty impressive credentials. Like the General Motors Tech Center resources, wind tunnels, proving grounds and worldwide testing and research facilities.

Through these resources, we've developed an air-suspension design, a heavy-duty coordinated chassis, a family of single-axle suspensions, and GMC's four-spring tandem suspension. The GMC Brigadier model also has rugged, all-steel cabs—and the GMC Astro and General models have aluminum cabs with

fiberglass features. What's more, Cummins Diesel powerplants have been integrated into some of the industry's best powertrains.

The Cummins lineup of diesel engines for heavy-duty GMC trucks offers an impressive combination of horsepower and torque. Cummins Diesels are high-torque engines developed specifically to meet today's need for fuel economy combined with good performance.

In summary, you get a lot with our Customer-Proven program. You benefit from the combined experience of thousands of other GMC heavy-duty truck customers. You capitalize on the extensive know-how and capabilities of General Motors. And you get professional help—and

responsive parts and service personnel—at your GMC truck dealer. Look him up soon—he's listed in the Yellow Pages under "Trucks."

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28 Ways To Learn To Run a Business

Here are suggestions
from people who ought to know.

By Sharon Nelton

IF YOU START a business, one thing is for sure: You are going to learn a lot. But will you learn as much as you want to know quickly enough?

New business owners often find they have to get up to speed fast on management, technology, finance, distribution and all kinds of things they never realized they would have to know.

NATION'S BUSINESS talks with hundreds of entrepreneurs every year. We often ask them how they learned what they needed to know to run businesses and how others can learn, too. Here are 28 of their suggestions.

1. Say yes. When another company asks you to serve on its board, do it. You will find out how other boards are run and how other companies do business.

2. Hire smart people. Not only will you learn from them, but they will help your business thrive. Many entrepreneurs say they have succeeded because they hired people smarter than themselves.

3. Go to dinner. Or breakfast. Or lunch. With people who know things you do not. A Kansas City entrepreneur says that every time she meets people she wants to learn from, she asks them out to dinner so she can pick their brains.

4. Watch television. Many stations offer management courses—some for college credit—at times that make sense for busy people.

5. Listen. Some entrepreneurs tell us they play informative business tapes while they are driving. A variety of educational audiocassettes—including the NATION'S BUSINESS "Executive Seminars in Sound"—are aimed at business people.

6. Make friends with the SBA. The Small Business Administration sponsors educational meetings across the country. Its regional offices are staffed with people who can often offer knowledge you need, as can its Small Business Development Centers, located at 40 colleges and universities. Make friends with other government agen-



cies, too. The U.S. Department of Commerce and state departments of commerce and economic development can all be sources for learning.

7. Take the trial and error route. Very often, this is what entrepreneurs answer when you ask how they learned to manage their businesses. Experience may not be the most efficient way. Sometimes it is a hard teacher. But it is almost always effective.

8. Create a board of directors. Entrepreneurs who have boards say their board members offer expertise that they could not afford if they had to hire consultants. Choose people who have experience you do not, whether it is in marketing, finance, management or exporting.

9. Join a presidents' club. Or form one of your own. Many business leaders cite the New York-based Young Presidents' Organization as providing one of the most significant learning experiences of their careers. Through YPO, members can attend educational conferences and mix with presidents from other companies across the country, learning from one another's experience. Many YPO members socialize with other members in their own cities, so they can continue the learning process on an informal basis.

But YPO has strict membership criteria (you must be a president before age

40 and employ at least 50 people) and requires two sponsors. Sometimes it takes years to get in. It is also tough to get into the Committee of 200, an organization of top women business owners and executives. So why not organize your own local presidents' group?

10. Or set up an advisory board. Not psychologically ready to work with directors, some entrepreneurs take the in-between step of setting up a panel of trusted, knowledgeable advisers to help them get a business off the ground.

11. Work through lunch. In some small businesses, owners and top employees eat together at the office almost every day. It's a great way to get creative juices flowing, solve problems and learn from each other.

12. Listen to family members. Maybe your spouse isn't so dumb after all,



or maybe your son with the M.B.A. has more street smarts than you think. Rachel Borish and Jeffrey Slater, the husband-and-wife team who own Rachel's Brownies in Malvern, Pa., get counseling from her lawyer father and his father, a stockbroker. "We get million-dollar advice in return for brownies," says Slater. Other entrepreneurs have even hired parents who had retired after successful careers in marketing and other fields.

13. Incubate. If you can, locate your enterprise in a small business "incuba-

tor," a facility designed to help start-up companies weather the early stages of development. Often there are 20 or more firms in an incubator, and business owners get a chance to rub elbows with one another daily. You can find out firsthand just how the other guy runs a board meeting or gets a loan.

Some incubators make consultation services and seminars available. Your SBA office can help you determine if such a facility is near you.

14. Read. Books, magazines, newspapers, newsletters and trade publications can all be sources of valuable information.

15. Be a joiner. Join your local chamber of commerce, your trade association or whatever other groups give you an opportunity to learn from other business people. Many entrepreneurs join Toastmasters, for example, be-



cause it helps them make confident, effective presentations.

16. Hire a consultant. Use him not just to solve a problem but as a learning resource. When her firm began to grow, Sandy Linver, founder of Speakeasy, Inc., an Atlanta company that teaches executives to become effective speakers, hired an organizational consultant to help her learn to delegate responsibility and deal with staff in a more businesslike way.

17. Get a personal computer. A number of software programs on the market will teach you how to run your business better.

18. Listen to employees. You hired them for what they know, didn't you? Now pay attention.

19. Try osmosis. Jerry Gordé, president of Virginia Textiles, in Richmond, says he gained much of his business knowledge by this process. His father was an entrepreneur, and Gordé sponged up savvy by living with it every day as he grew up.

The process need not stop. By surrounding yourself with good people and interacting with them daily, you may one day be surprised when you see how much you have absorbed. Get out, walk around, talk with your people. (Gordé

must still be sopping up know-how—he often delivers company mail, chatting with employees along the way.)

20. Pick your suppliers' brains. Suppliers often not only know a great deal about your industry but also have very specific information that can help you. A Maryland woman who started a grocery delivery business for shut-ins and the elderly says she learned all she knows about cheese from employees of a distribution center where she makes many of her purchases.

21. Appear before a forum. MIT Enterprise Forums, started by alumni of the Massachusetts Institute of Technology, are now held regularly in a dozen cities. An entrepreneur makes a presentation on his business plan and gets constructive criticism and feedback from a panel of experts.

To find out if there is a forum near you, contact MIT Enterprise Forum, 77 Massachusetts Avenue, Cambridge, Mass. 02139, (617) 253-8240. Or call your local university's business school to see if it sponsors a similar program.

22. Bring in experts. Once a week, owners of a small high technology firm in suburban Chicago bring in experts from other high tech businesses and local colleges to conduct after-work seminars. This helps them and their employees keep on top of a fast-changing industry.

23. Heed customer complaints. And kudos. They can tell you what you are doing wrong, so you can correct it, and what you are doing right, so you can keep on doing it.

24. Link up with SCORE. The purpose of the Service Corps of Retired Executives is to provide management



assistance to fledgling businesses. Check your phone directory or call the SBA for information on the SCORE operation nearest you.

Other organizations also provide management assistance or educational programs, but for a price. You can get in touch with:

The Center for Entrepreneurial Management, Inc., 83 Spring Street, New York, N.Y. 10012, (212) 325-7304; the

American Woman's Economic Development Corporation, 60 E. 42nd Street, New York, N.Y. 10165, (212) 692-9100 and the American Management Association, 135 W. 50th Street, New York, N.Y. 10020, (212) 586-8100.

25. Copy someone else. One entrepreneur says, "The easiest way to do something is to find someone who has done it and duplicate what they've done." If Joe X has a unique business in West Virginia and no plans for expansion, he will be flattered—not threat-




ened—when you visit him to find out how you can do the same thing in Oregon.

26. Get an M.B.A. Many business schools cater to busy entrepreneurs and corporate managers by offering weekend or evening "executive" M.B.A. programs. If you don't want to pursue a degree, take a summer short course aimed at helping you become a better manager. Harvard Business School offers the Smaller Company Management program, for example, while Dartmouth College's Amos Tuck School of Business Administration offers the Minority Business Executive Seminar, and Smith College sponsors the Smith Management Program (for women only).

27. Help employees grow. Insist that your employees—as well as you—attend at least one professional development course or seminar every year. Your business success depends not only on how much you know but on what your employees know, too.

28. Keep asking questions. People usually will tell you anything you want to know if you just ask. Your questions make others the center of attention, and often they love it. So don't worry about overstepping bounds. If people don't want to tell you something, they will let you know.

Just remember that when someone else asks you questions, you should be as open and helpful as you can. If you wanna get, you gotta give. 



To order reprints of this article, see page 57.

They Never Say: "Can I Help You?"

One retailer trains his salespeople to ask better questions.

PEOPLE ARE TIRED of going into a store and "finding the staff standing around talking to each other so you have to interrupt them just to get waited on," says Cliff Epstein.

"And when you get their attention they say, 'We don't have any' or 'That's not my department.'"

Epstein, 39, is president of Gold Medal Sporting Goods, whose seven stores in the Philadelphia area sold \$12 million in clothes and equipment last year. Customer service is the company's guiding principle.

"When I went looking for a video recorder recently," Epstein says, "I had to go to five stores before I could find a salesperson to explain the differences in the features to me. I don't like that, and I think that's what is wrong with so much retail marketing today."

Training salespeople to give attentive, helpful service to customers is one of the major challenges facing retailers today and Gold Medal, which has grown rapidly since its founding, provides an outstanding example of successful marketing based on continuous employee training.

At 10 evening clinics held weekly in the spring and at another 10 in the fall, Gold Medal's sales staff gathers to eat a meal, play "Trivial Pursuit" and listen to a tennis pro explain the latest in tennis rackets or a podiatrist tell how to examine wear patterns in shoes to understand better what customers' foot needs are.

Gold Medal salespeople learn to be responsive to each customer. "The clerk doesn't ask, 'Can I help you?'" Epstein says. "That's a dumb question, and most people answer 'No, thanks, I'm just looking.' Instead, if a customer is looking at tennis rackets, the clerk may inquire how long the person has been playing tennis; he tries to show a friendly interest in the other person's active world."

Also, Epstein says, "we don't make hit and run sales. If a parent comes in and wants to buy the 'very best' for his child, meaning the most expensive thing, we talk first about the child and analyze the need. If a father buys his 9-



Cliff Epstein, president of Gold Medal Sporting Goods in Philadelphia, says salespeople, like this one showing an exercise machine, should try to understand customers' needs.



year-old kid a \$100 baseball glove and it isn't right for him, later on the family is going to blame you for selling it to them. You've lost a repeat customer.

"We would rather sell him a \$25 glove that's right for the child. Most people appreciate that kind of attention, and the next time they need something, they will come back."

Epstein has other marketing ideas that he has learned since 1968, when his business started as a single store in which empty boxes helped fill some of the homemade shelves.

Until then, Epstein was running a playground for the city recreation department. Among other things, he made trophies from wholesale materials to hand out at team award ceremonies. More and more community athletic associations asked him to make their trophies, too. So he decided to set up a regular business.

His partners were two other men in their 20s—his playground supervisor and the owner of a restaurant where they first planned the business. Each got a personal bank loan of \$2,000 to put in the business, and together they borrowed another \$5,000 from a relative of one of them.

The three worked for two months building furniture, putting up shelves and decorating the 1,100-square-foot store in a new shopping center. They opened with sporting equipment and clothing for the public, along with the trophies, which mostly sold to institutions. The name Gold Medal came from all the talk of gold medals in 1968, an Olympics year.

As the retail operation expanded, the

partners opened other divisions. They began supplying professional sports teams and colleges with uniforms and equipment and filling telephone orders from team fans who wanted authentic Eagles, Phillies and Flyers caps.

They opened a corporate division to supply premiums and awards for sales promotions and employee incentive programs. They had garments made to their specifications and set up their own art department to silk-screen team and commercial logos on shirts and caps.

Last year they opened a fitness division to help employers set up "wellness" programs in their companies.

BUT RETAIL is still the largest single part of Gold Medal's business, and Cliff Epstein thinks the company's alertness to rapid changes in the market is responsible for its sales growth, now running at 15 percent a year.

"The sporting goods industry has been changing from furnishing equipment for athletes to providing active wear for a much wider segment of the public," Epstein says.

To be successful, sports stores now must keep up with the volatile changes that occur in high fashion. Epstein used to do all the buying himself, but it got too complicated. Now he has four buyers.

To sum up, Epstein says the retailer "can't sell from an empty wagon." To succeed he must offer a good selection of merchandise, competitive prices, a fair store policy on returns and—last but not least—knowledgeable and attentive salespeople.

—Harry Bacas

Changing Gears at Sears

Edward R. Telling is making the nation's biggest retailer a financial giant, too.

By Michael Barrier

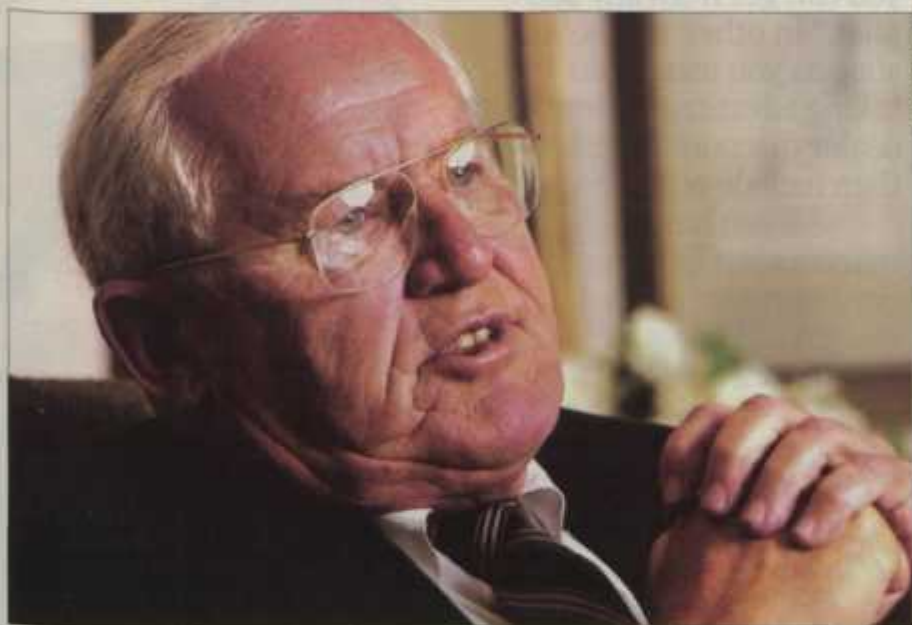


PHOTO BY KEVIN MAZUR

IN THE FALL OF 1954, Edward R. Telling became manager of the Sears, Roebuck & Company store in his hometown, Danville, Ill. About six weeks later, the place caught fire. The flames left the store "just a skeleton," Telling recalls. Rebuilding would take months; in the meantime, Sears would lose many thousands of dollars in sales, and five dozen employees would be without jobs.

So, Telling says, "I rented an empty Chrysler garage, and we all got together and got everything we could out of the store that had burned down and held a fire sale."

Telling set up a temporary store in the garage, using salvaged fixtures. Customers could buy only Sears' hard lines—paint, hardware, appliances, and the like—and no home furnishings or apparel.

But, Telling says, by the time the original store reopened, eight months after the fire, the temporary store "was very little behind in sales, and we were ahead in profits."

Sears' customers showed loyalty to an unusual extent. "Somehow," Telling recalls, "the story got out that all our credit accounts had burned. I could

hardly get off the phone for a day or two, because people literally called to say, 'This is Mrs. James. We want you to know we owe you \$35.'"

Sears was, at that time, an exceptionally decentralized operation. Managers had broad discretion, Telling says, on "what to buy, how to price it and how to sell it." But their discretion had limits, and Telling's initiative in keeping his store open was not as popular with his superiors as with his customers.

Telling was dressed down "for renting the garage on my own. They called attention to the fact that I didn't have the authority—which was correct. But my concern was the people. We had a great number of employees there that we wanted to keep employed."

He recalls that his bosses were not terribly helpful in another respect. While his store was burning, he borrowed a phone at a neighboring J.C. Penney store to call Sears' territorial office in Chicago. "I've forgotten who I talked to," he says, "but they told me to read the bulletin on store fires"—which was inside the burning building. When Telling finally saw a copy of the bulletin, its advice, he remembers, amounted to this: "Call Chicago." He concludes

wryly: "I don't recall a great deal of assistance."

Here is the chain-store dilemma in a nutshell: How does a national retailer stay close to its customers, as Sears had done in Danville and hundreds of other communities, without surrendering too many of the advantages of being a chain—the centralized buying, advertising, leasing and the like? As Ed Telling's experience with his superiors suggests, it has not always been easy for Sears to strike the right balance. But the company's overall success in dealing with this challenge can be summed up in a few figures: Last year, Sears had revenues of almost \$39 billion—more than all but six other U.S. corporations. It is by far the nation's largest retailer, dwarfing second-place K mart Corporation. It has more than 800 retail stores, 2,300 catalog offices and 450,000 employees.

By overstepping his authority a bit in Danville, Telling may have slowed his rise in Sears—but if so, not by much. He became chairman and chief executive officer on Feb. 1, 1978, at the relatively young (for Sears) age of 58.

When Telling retires at the end of this year, he will leave behind a company profoundly different from the one whose leadership he inherited 7½ years ago. He has strengthened Sears at the center—but, if his reading of the market has been correct, he has moved the company closer to its customers, too, because it is offering them more of what they want.

Telling's impact on Sears is being compared to that of Gen. Robert E. Wood, who ran the company from 1928 to 1954. It was Wood who led Sears into retailing in the 1920s (the company was a mail order operation exclusively until then) and into automobile insurance in the 1930s. In the 1940s, Wood gambled on postwar prosperity, and Sears built, relocated or enlarged 350 stores in his final eight years as chairman. By building stores in the suburbs and in the growing cities of the West and the South, Wood cemented Sears' position as the country's pre-eminent retailer.

But Wood did his work almost too

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well. When his long reign ended, he was followed by caretaker CEOs who served an average of only four years each—hardly enough time to make much of a mark on so huge a company. Sears rested comfortably for two decades on Wood's durable legacy. But in the 1970s, as more aggressive and resourceful merchants crowded into retailing, the company saw its customers' loyalties erode. By 1978 Sears was, if not in crisis, in clear danger of slipping into one.

By the early 1950s, Telling was a "field man," visiting Sears stores in the Midwest as a link between them and territorial headquarters in Chicago. In 1952, he filled in as acting manager of the store in Lexington, Ky., for a few months, and Gene Harmon—then a junior manager in the Lexington store and now a Sears vice president—remembers "his real emphasis" on Sears' famous slogan, "Satisfaction guaranteed or your money back."

"Back then," Harmon recalls, "there

that when Telling was sent to New York, "a lot of people thought that was the last they'd ever hear of Ed Telling. But having sent him there, they left him alone; nobody expected much of him. They gave him the time to do the things he needed to do."

Telling brought in talented new people, closed a lot of unprofitable stores and opened a ring of profitable new ones in suburban Connecticut, New Jersey and Long Island. "All of a sudden," Knox says, "the New York group was making money hand over fist."

In 1969, Telling became vice president for Sears' Eastern territory—a powerful position. At that time the five territorial vice presidents were, Telling says, highly autonomous "kings in their own kingdom"; they reported directly to Sears' chairman at corporate headquarters in Chicago.

Telling held that power for seven years, first in the East and then in the Midwest, and exercised it decisively. Knox recalls being "shocked" by what Telling did at one meeting with a concessionaire who was causing serious problems for Sears. Telling told the concessionaire flatly that he would do no more business in Sears stores after the problems had been resolved.

"This bothered me greatly," Knox says. "Because this fellow had lost his base with Sears, he had no incentive to cooperate with us. But I learned later that there were other situations that were comparable. Telling had the vision to see beyond this immediate situation and use it to send a message. If the company lost some money, that was a short-run problem. The long-run problem was to change the climate."

GIVEN HIS willingness to act so decisively, and his imposing bulk (he stands 6-foot-2 and weighs well over 200 pounds), it is easy to imagine that Telling might be an intimidating CEO. There is no hint of that in what some of his closest associates say about him.

Telling's speech is direct but in a way that does not wound; instead, his manner invites informality and communication. "He has always had the ability to put people at ease," says Henry D. Sunderland, senior vice president for corporate administration.

Knox speaks of Telling's "restless, prowling attitude" and of how he often goes to his subordinates' workplaces to talk with them, rather than summon them to his office. "He'll just come into my office and chat," says Sunderland, "as much about what I want to talk about as what's on his mind." Says Gene Harmon: "I think he feels that if he talks to me in my office, I'll come nearer to saying what I think than if I



Edward R. Telling visits with Deidre Rogers, a Dean Witter account executive, at the Sears financial center in the corporate headquarters, Sears Tower in Chicago.

To right itself, Sears turned to Edward Telling, a man with deep roots in its ways of retailing.

One of the two children of a small-town banker and farmer, he graduated from Illinois Wesleyan University in 1946, after time out for World War II service as a naval aviator, and began casting about for a career. A family friend suggested Telling talk to Sears. To his delighted surprise, the company offered him a job in his hometown.

As a management trainee, Telling rotated through a various jobs in the Danville store, starting in the warehouse in September, 1946. He sold everything from furnaces to sporting goods before being sent to Decatur, Ill., as assistant manager of the store there.

Telling gave early evidence of taking both Sears' merchandise and its customers seriously. When he was still a management trainee, working as a receiving clerk, he found himself with free time after all the goods had been moved onto the sales floor each day. He used that time to read about Sears products. "You would have maybe an hour and a half to read about anything that came through there, if you chose to," he recalls, "and I read a lot."

was a tendency for department managers to argue with the customers. I was on the floor when this department manager came to him with a question about whether he should give this person's money back. Telling said, 'Come with me.' We walked all the way down the floor and outside, and he pointed up at our slogan on a sign. He said, 'You see that sign? That's why we're in business.' Then he turned around and walked off."

In 1965 Telling was given a job that might have been a plum in some other company but was a rather sour fruit in the Sears scheme of things: He was named general manager of Sears' stores in the New York City area. "At the time," Telling recalls, "I thought, my God, what did I do wrong?"

The Northeast was never the most congenial environment for Sears—not in 1886, when the company started as a mail order house for farmers, and not in later years, when Sears settled in suburban shopping malls rather than crowded central cities (there never has been a Sears store in Manhattan).

Philip M. Knox, Jr., then a lawyer for Sears' Eastern territory and now the company's general counsel, remembers

am called over to his office and come in thinking, 'What in blazes does he want?'"

Telling took his biggest step toward the CEO's chair in 1976, when he was asked by the then chairman to "unify the field"—an assignment that meant, as a practical matter, curtailing the autonomy enjoyed by Telling and the other territorial officers. Decentralized power worked well in the 1940s and 1950s, Telling says, because Sears was expanding so rapidly; decisions could be made quickly, in the field, with no time lost by bucking them up to higher levels. But by the 1960s, "it reached the point where Sears couldn't live with Sears, because someone would decide 'not in my territory' or 'not in my store.' We used the word decentralization any time we didn't want to do what someone else wanted us to do. We lost the advantages of mass."

As Telling pulled the reins tighter, Sears regained those advantages. It could finally pursue a national merchandising strategy, with coordinated prices, products and advertising.

Telling spent his first three years as CEO making more internal changes in a company that was not used to them. "Sears was set in concrete," Telling says. His efforts to shatter that concrete culminated, in the fall of 1980, in the early retirement of more than 1,500

senior executives; the average age of a corporate officer dropped from the 60s to the upper 40s. "We became young again," Telling says.

While Telling was shaking Sears out of its lethargy, he and his key people were thinking about where the company should go once it was fully awake. They focused on services—since the economy as a whole was turning in that direction—and on financial services in particular. Telling and his colleagues concluded that the "comfort factor" of dealing with Sears would encourage many customers to try even relatively sophisticated services.

(Sears executives are at pains to point out that Sears customers have the money to spend on such services; Telling says the financial profile of the average Sears cardholder is the same as that of the average American Express cardholder.)

In 1981, Sears bought Coldwell, Banker & Company, the nation's largest real estate broker, and Dean Witter Reynolds, one of the largest securities brokers. Since Sears already owned Allstate, it was suddenly able to offer its customers a virtually complete range of financial services.

It is offering those services through more than 300 "Sears financial centers" in its stores, with many more centers to come. Telling wants to go even further.

Sears already owns two banks—one in California and one in Delaware—and Telling envisions a nationwide "family bank" through which Sears would make consumer loans (but no commercial loans) and accept deposits. Says Gene Harmon: "His aim, down the road, is to have a company where people can both save and spend."

(Telling's vision is not shared by powerful federal banking regulators and members of Congress; a bill that would forestall Sears from nationwide banking was approved in June by the House Banking Committee.)

S EARS THIS FALL will launch its Discover credit card, which it expects will be accepted by many other retailers as well as by Sears stores. In this age of electronic banking, cardholders will have access through the card to many of the services that would be available through the family bank. About all that will be missing is deposit taking at walk-up windows.

For all of its new focus on financial services, Sears has also been finding new ways to sell merchandise. More than 100 stores so far have been built or remodeled as "stores of the future." They do not differ radically from older Sears stores; most immediately noticeable is a circular pattern for foot traffic, in contrast to the usual grid. But through them, Sears is presenting its traditional "middle American" goods with greater flair and self-confidence than in the recent past, when the company sometimes took unprofitable detours into products that its core clientele rejected as too trendy or expensive.

It is too early to know whether such Telling innovations will rank with Gen. Wood's; Sears' performance under Telling has been solid, but the full effects of the financial centers and the "stores of the future" will not be felt until long after he has retired.

Telling was originally scheduled to retire last year, when he turned 65, but he agreed to stay on for almost two years more, at the urging of the board of directors. "My family and I owe everything that we have to Sears," he says. "So I talked with my wife, and we both felt that if that's what they wished, we should do it." Now that retirement is imminent, it holds no terrors for him: "I look forward to doing nothing for a certain period of time."

Neither does he betray any anxiety about how his strategy for Sears will ultimately be judged. There has been an element of risk in it, he acknowledges, "as there is in anything. But if the CEO isn't a studied risk-taker, you've got the wrong guy in the seat."



Telling prepares to testify before a Senate committee against legislation that would restrict Sears' entry into limited-service "family banking."

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Date Missing: 3/25/83.
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Date of Birth: 7/2/80.



Amber Nichole Crum
From: Dallas
Date Missing: 12/26/83.
Hair: Blond. Eyes: Blue.
Date of Birth: 9/25/81.



Jon Dabkowski
From: Tarentum, Pa.
Date Missing: 1/14/82.
Hair: Brown. Eyes: Hazel.
Date of Birth: 11/9/70.



John Davies
From: Belmont, Calif.
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From: Stockton, Calif.
Date Missing: 8/2/81.
Hair: Black. Eyes: Brown.
Date of Birth: 7/16/65.



Terry Deschamps
From: Hotel in Lodi, Calif.
Date Missing: 7/25/84.
Hair: Blond. Eyes: Green.
Date of Birth: 5/24/67.

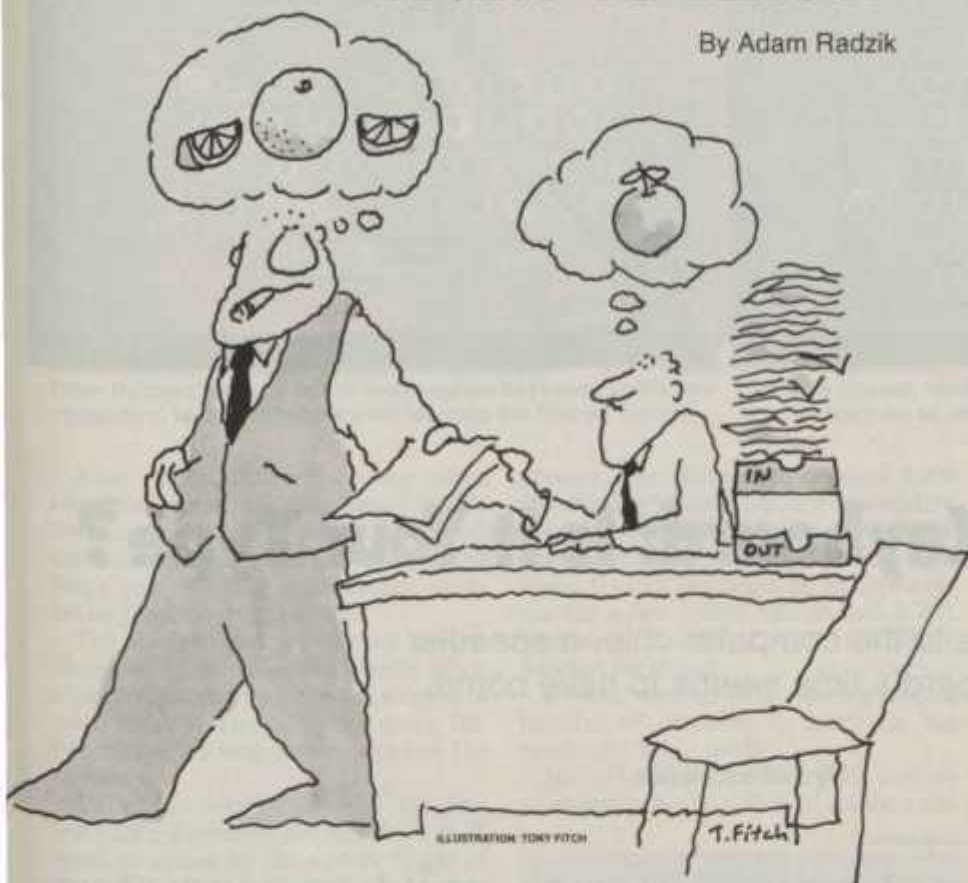


Sean Evans
From: Watertown, N.Y.
Date Missing: 5/17/84.
Hair: Blond. Eyes: Green.
Date of Birth: 11/25/81.

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What Managers Want To Know

By Adam Radzik



THE CONSCIENTIOUS and well-meaning owner of a small business cannot seem to get his work force motivated, despite a good benefits package and pleasant working environment. "I am coming to the conclusion that it doesn't pay to be nice to people," he says. "Maybe if I fired a few of them I'd get better results."

The supervisor of a 100-employee division of a large company says his employees are demoralized; he wants to know ways to increase their motivation.

An office manager is stunned to find out that two of her best employees told another supervisor she did not like them. "They are both top performers, and I can never remember being dissatisfied with them in any way," she says. "What's happening?"

These managers are discovering that managing means managing people. In the course of consulting and column writing I have found the two major problem areas for managers are how to motivate and how to reduce conflict.

Take the owner who is contemplating

ADAM RADZIK is a management consultant in Plainfield, N.J., and writer of "Down to Business," a twice-weekly column in the New York Post.

firing some of his employees. It is not that he is doing something wrong by giving them a handsome benefits package and good working conditions. He is just not doing enough. If you are in his situation you should ask yourself these questions: Do your employees participate in decision making? Do they have promotion opportunities? Do they think you have made promises you have not fulfilled? Do you reward them for initiative and superior performance?

People will work for money, but except in extreme circumstances, they resist working for money alone. They also want recognition, security and opportunity. There is, accordingly, a simple solution for the supervisor of those 100 demoralized employees: Tell them "thank you."

It is human nature to like praise and to be motivated to work for it. I often tell my clients, "Do you want to make \$1,000 in five minutes? Go and give an employee a word of praise. His work rate will increase, his motivational level will rise, and he will pass along his good mood to others."

And you must be aware that all the good work and good feeling you build up can be destroyed in ways you little expect. Take the supervisor who was

amazed to find out that her two best employees thought she disliked them.

It can happen like this: The manager is worried about a procurement problem. Frank, the employee, passes the manager in the corridor and greets her with a smile. The manager, engrossed in her problem, looks up briefly and mumbles a reply. Frank's mood drops. He wonders why she is angry with him, what he did, whether he is doing a good job.

The next day, the procurement problem takes a turn for the worse. Frank tries again. This time the manager does not even respond. Frank's worst fears are confirmed. And the manager does not even realize it.

Why does this happen? Employees are constantly gauging their job security and their employer's satisfaction with their performance by the expression they see on the manager's face.

OFFICE CONFLICT at its worst is caused by a deliberate troublemaker. Here is a typical case:

"I work with a manager who constantly criticizes me and the other managers. He likes to show my boss how knowledgeable he is and how he is the only guy who can 'get anything done around here.' The boss laps it up, and the two of them have lengthy conferences discussing all the employees. This guy is bent on climbing to the top over our bodies. What should we do?"

These professional conflict makers create morale problems, credibility problems and eventual productivity problems. They can be cunning and vicious, but they flourish only where the boss is a willing participant.

Professional conflict makers devote so much of their energies to criticizing others' performances that their own tasks are neglected. You can find subtle ways of pointing that out to their superiors.

Worth noting is that professional conflict makers rarely confine their volleys to employees. Their highly critical appraisals usually include disparaging remarks about the boss and his management style. At the appropriate time, you might wish to share with your boss your concerns about the damage being done to the boss' own image in the eyes of the employees. By the way, bring along a witness or two. It will enhance your credibility. Keep your remarks dispassionate, and your boss will see the light.

A high level of employee motivation can make a company grow and flourish. Human conflict can reduce productivity and increase turnover. Business owners would be well advised to regularly monitor both. For a business they can spell life or death.

DVORAK Keyboard 1936



SHOLES Keyboard 1872



The Dvorak Keyboard: Is It Your Type?

Thanks to the computer chip, a speedier keyboard's time seems to have come.

By William Hoffer

ALL FIVE PEOPLE in Peter Hubbard's office, including the boss himself, are taking typing lessons. The Hubbard Agency is an independent insurance brokerage in Middlebury, Vt., and at first glance it seems unusual that everyone in an established, successful business would need to learn such a basic skill.

At second glance it seems even more unusual, for they are typing, not on the familiar keyboard known as QWERTY, but on a radically different one with keys in alien locations. They are using the Dvorak keyboard—in existence for half a century but only now beginning to catch on.

"It's like learning a new language," says Hubbard. "At first it is very strange, but before long you become comfortable with it. You can even change back and forth between the two types of keyboards."

But why change at all? QWERTY has been around for 100 years and appears to be doing the job well.

The answer can be found by studying a bit of typewriting history. The father of the typewriter was Christopher Latham Sholes, who ran headlong into

an unforeseen problem. His early machines, slower than the typists' fingers, kept jamming.

To correct this problem Sholes carefully devised the QWERTY keyboard. He spread the most common letters—E, T, O, A, N, I—all over the board and ensured that frequent combinations such as "ed" had to be struck by the same finger so that the machine would not jam. In other words, the QWERTY keyboard was invented to slow down typing speed.

"More than anything, that realization was the driving force that caused us to make the change," Hubbard explains. "I just couldn't believe that after all these years we're still using something designed to slow down production."

Hubbard learned of an alternative to QWERTY when Virginia Russell spoke to a group of computer users to which he belongs. Russell is president of the Brandon, Vt.-based Dvorak International Federation, a group dedicated to the propagation of the Dvorak keyboard. That keyboard, Russell says, increases speed, decreases errors and reduces fatigue.

August Dvorak, a distant cousin of Czech composer Anton Dvorak, was a disciple of time and motion study experts Frank and Lillian Gilbreth (sub-

jects of the book-play-movie "Cheaper by the Dozen"). In 1933 and 1934 Dvorak, a university professor, received two Carnegie Corporation grants to study the nature of typewriting. He judged the efficiency of typing by the Gilbreths' principles of simple motion, short movement and rhythmic sequence.

Studying the QWERTY keyboard in his office at the University of Washington, he did not take long to conclude: "If the letters and characters ... are drawn from a hat and placed by pure chance" they would result in a more sensible pattern than the one Sholes devised.

Dvorak designed a keyboard that was the antithesis of QWERTY; it was fine-tuned for speed. All five vowels and the five most common consonants are on the center, or "home" row—right under the fingertips. With those letters—A, O, E, U, I, D, H, T, N, S—the typist can produce nearly 4,000 common English words (compared with about 100 on QWERTY's home row). Seventy percent of typing is done on the home row.

The QWERTY typist must use the weaker left hand 57 percent of the time. The Dvorak typist uses the stronger right hand 56 percent of the time.

WILLIAM HOFFER is a Virginia freelance writer.



Peter Hubbard decided not to install a slow keyboard on his new computers, so he started his staff learning the Dvorak system.



Virginia Russell, head of the Dvorak International Federation, had to learn on an old Underwood. Then came the computer.

Also, notes Hubbard, "many other important keys are positioned above the home row, not below it. The period and comma, for instance, are above the home row. Moving your finger up is easier than moving it down."

The design also eliminated typing "hurdles." You come to a hurdle when a pair of letters that are adjacent in a word must be struck by the same finger on the top and bottom rows of the keyboard.

Take the word "piece." On the QWERTY keyboard the letters E, C, E must be struck by the middle finger of the left hand in a cumbersome double hurdle. There are nearly 1,200 common English words with multiple hurdles on the QWERTY keyboard. On the Dvorak, there are none. The Dvorak's developer calculated that during an eight-hour day a QWERTY typist's fingers would travel 16 miles, while a Dvorak typist's would travel only a single mile.

He patented his keyboard in 1936 and then campaigned long and hard for its acceptance.

According to the *Wall Street Journal* of Jan. 28, 1946, a Dvorak protégé "once typed 150 300-word manuscript pages, using three carbons, in eight hours, then went out dancing in the evening." In fact, since its invention, the Dvorak keyboard has been used every time an international typing speed record has been set. It is the keyboard of champions, recognized as such by *The Guinness Book of World Records*.

THE MOST FAMOUS comparison study of QWERTY vs. Dvorak occurred during World War II, when the U.S. Navy retrained one group of QWERTY typists on the Dvorak while giving a control group refresher training on the QWERTY keyboard. Both groups increased their speed, but the Dvorak group's rate of increase was 70 percent

greater. The Navy then ordered 2,000 Dvorak keyboards, but a conservative Treasury official squelched the requisition order. Smith-Corona offered an optional Dvorak keyboard on its typewriters for a few years, but phased it out because of a lack of sales. QWERTY was too ingrained.

Dvorak died in 1975, leaving only a handful of disciples to carry on the seemingly futile battle.

In 1979 Russell, an energetic mother of seven, who is active in public rela-

tions work, read about the Dvorak keyboard. "It's about time I learned to type properly," she muttered. She called every typewriter manufacturer to no avail. There was simply no demand for a Dvorak typewriter. "I figured 'What the heck,'" says Russell, "and I called Mrs. Dvorak herself. She helped me get an old Smith-Corona with a Dvorak keyboard, as well as an old training manual written by Prof. Dvorak himself. It made so much sense."

Soon Russell was typing faster and easier than she ever had before. Two of her children also became Dvorak disciples. Within a year she was president of the Dvorak International Federation, devoting, she says, "25 hours a day" to the quest.

For some time, however, there was little progress. Who wanted to learn the Dvorak keyboard when few were in existence? "I was ready to give it all up," Russell admits.

Then came the explosion of interest in the electronic keyboard.

"Ever since they put the chip into a keyboard, there's been a groundswell of interest," says Russell. "The computer makes the Dvorak keyboard more than a tinker's fancy."

Now it is possible to switch back and forth between QWERTY and Dvorak at the touch of a button. Now, too, business people are realizing that typing proficiency is an



The Hubbard Agency's Deborah Wheeling has a new Compaq equipped with a Key Tronic Dvorak Keyboard. Her office has found the keyboard faster and easier.

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Manufacturers such as Apple, Wang and Digital Equipment Corporation are offering optional Dvorak hardware. Push a button on the Apple IIc, rearrange the key caps, and you have a Dvorak keyboard. There are also software programs available to convert the IBM PC to Dvorak. Interest is building so quickly, says Russell, that she feels confident both hardware and software will soon be available to convert any microcomputer to Dvorak. Various training aids are available from the manufacturers, as well as from Russell's federation. The computer is built for speed; why would anyone cling to a deliberately slow keyboard?

The word is spreading.

In recent months the Dvorak International Federation has been deluged with requests for information from scores of businesses, large and small, and from federal agencies. The Agricultural Department's office of finance and management is training three typists on Dvorak in an experimental program that will be expanded if successful. The Internal Revenue Service, which is planning to train 14,000 field agents to use lap computers, is considering the Dvorak keyboard.

Already, 14,000 telephone directory assistance operators around the country use the Dvorak keyboard, built into their equipment by Computer Consoles, Inc., of Rochester, N.Y.

"It's a good system; I hope it continues to catch on," says Bill Marseilles, owner of Marseilles, Ltd., a Pinehurst, N.C., furniture and interior design firm. Marseilles is one of the few Dvorak typists who never learned QWERTY. He had heard of the Dvorak keyboard years ago, and when he decided recently to teach himself typing, it was the system that made sense to him.

"I can't really compare the two," he says, "but there's no doubt in my mind that Dvorak is speedier and easier."

For 40 years Jerry Lindgren has been a believer. "My aunt was manager of the secretarial pool at the home office of General Mills," he recalls. "She participated in experiments on the Dvorak keyboard. I believe they concluded that Dvorak increased speed, but they were afraid that typists would lose their skills at the regular keyboard, so they reluctantly dropped it."

Today Lindgren is production manager of the *Chronicle of Higher Education*, a periodical for educators published in Washington. From time to time he considered learning Dvorak typing, but he, too, worried that it would interfere with his QWERTY typing. "Then I realized that not only was I fairly proficient on the regular typewriter, but also on a linotype machine," he says. "I could swivel in my chair and

switch from one keyboard to the other without any problem."

Lindgren learned the Dvorak was available on the Atex computer system in his office, and he is now learning it.

"I'm such a lousy typist that I figured anything would help," admits Mike Russell, a technical writer for Starcraft, Inc., a Topeka, Ind., boat-building firm. "The kind of writing I do here requires a great deal of revision. Doing that on a typewriter was always torture. Then I got a computer for word processing, and I learned about Dvorak in a computer magazine."

"It took me 20 or 30 hours of practice to get comfortable with it, but once you get through the initial frustration period, it's a much easier keyboard."

ACCORDING TO Virginia Russell, there is more than a slim chance that your computer is already programed for Dvorak, although you may have to inquire beyond the salesman to learn how to activate it. Hardware and software now exist to convert most computers to Dvorak, and the trend is accelerating so much that Mrs. Russell thinks Dvorak keyboards may outsell QWERTY in a few more years.

Hubbard is one of the believers. Last winter, when he ordered Compaq Deskpro computers for each of the office workers, he and his all-female staff discussed Dvorak. "I said if everybody was willing, I'd do it," he explains, and he promptly ordered Key Tronic KB 5151D computer keyboards in the optional Dvorak configuration.

Two weeks before the new keyboards arrived, everyone in the office took a typing test. Then Hubbard announced that as soon as each worker equaled or surpassed her QWERTY speed on the Dvorak keyboard, she would qualify for a \$50 bonus.

"I thought about how hard it was going to be to unlearn the old system," recalls secretary Kelly Dragon. "I wanted to try it, but I knew it would be really hard."

Each worker was assigned one hour a day to begin lessons from the Smith-Corona Dvorak handbook. Later they graduated to QED software that not only taught them Dvorak, but also monitored their typing speed.

"It was really strange at first, but not half as bad as I expected it to be," says Dragon. By her own admission she is not a high speed typist. Her QWERTY speed, adjusted for errors, was a modest 36 words per minute. But within a few weeks on the Dvorak keyboard she was typing at 55 wpm and continuing to increase her speed and competency.

She was the first to qualify for the \$50 bonus. "I feel special now," she says. "Not too many other people know how to do this."

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WHEN RON KURTZ was senior vice president of the world's largest cruise ship line, he was well aware that many upper income people liked the idea of ocean travel but avoided conventional cruises.

His own experience, backed by market research, indicated they disliked organized deck sports, get-acquainted parties, masquerade balls, bingo games, staggered dining schedules and the rest of the routine aboard many cruise ships.

Carrying his observations another step, Kurtz saw a lucrative market in offering upscale people the type of cruise they might expect to enjoy on a private yacht.

To make a reality of that concept, he raised \$78 million from investors, formed Sea Goddess Cruises, Ltd., and built two luxurious ships, which have been referred to as "floating palaces."

The *Sea Goddess I* began operations out of Miami in April of last year, and was joined last May by *Sea Goddess II*. Kurtz's marketing efforts are aimed at business owners, professionals and executives with annual incomes of more than \$100,000.

Sea Goddess Cruises anticipates 1985 revenues will total about \$25 million, and Kurtz expects the company to be making a profit by next year. He says that it "has found its niche."

In launching his venture, Kurtz joined a growing number of entrepreneurs who are doing well by catering to those who have done well. As the ranks of the affluent have expanded in the boom of the 1980s, so have the numbers of businesses catering to that upscale category of buyers.

After all, the wealthy have to eat, move about, be sheltered, wear clothes and know what time it is like anyone else. But they want to do so differently from everyone else.

That translates into expensive versions of cars, food, travel accommodations, clothing and other products and services.

Entrepreneurs catering to the big spenders employ a basic marketing strategy: Make them feel special.

Kurtz's ships, for example, are less than half the size of regular cruise ships, which enables them to call at exclusive yacht clubs and marinas in the Mediterranean and Caribbean.

Service is intimate. A staff of 80 on each ship caters to a maximum 116 passengers; that is almost one-to-one, compared with most cruise ships where the ratio is 2.2 to 2.5 passengers to a staff member.

The climate-controlled luxury suites have color televisions, videocassette players, telexes, ship-to-shore telephones and bars stocked with each



Marketing To The Big Spenders

Luxury items and services put firms in the right niche.

By Mary-Margaret Wantuck

guest's preferred brands of caviar, liquor, champagne and wine.

Cost? The cabin rate is more than \$1,000 a day.

Kurtz intends to preserve the exclusivity. No more *Sea Goddesses* will be built, and he will be raising prices next year. Many passengers have urged him to do so. "They even want to invest in the company," he says.

You do not have to be small to capture the big spender. The newest ship in the Princess Cruises fleet of four—the 45,000-ton *Royal Princess*, which was christened by Princess Diana—caters to the upper middle class and affluent, according to Max Hall, spokesman for the Princess line. "Passengers have to be earning around \$40,000 before they can take even a one-week trip with us," he says. Guests can range from young executives to well-known celebrities like Cary Grant.

The ship may carry 1,200 passengers but it does have 152 luxurious top-of-the-line suites, all with private balco-

nies. The two most expensive—the Royal suite and the Princess suite—are each 800 square feet with a separate sitting room, bedroom and bathroom with tub and Jacuzzi. Staying in one for a 14-night trip can cost \$9,918 per person. The cheapest per person rate is \$3,598 for 14 nights.

"We are the first major cruise ship to have all our passengers housed in outside cabins with large picture windows instead of portholes," says Hall.

"Our aim is to give people options," he says. "If they want to isolate themselves, they can easily do it. If they want to join the rest of humanity and take in a Broadway show, swim in one of our four pools, gamble, jog on the ship's track, they can do that, too."

The ranks of people with incomes sufficient to command such treatment continue to expand. Nearly 2 million American families now have incomes of more than \$100,000 a year. Though they represent only 2 percent of all U.S. families, Federal Reserve Board figures



Exclusivity reigns on the *Sea Goddesses*, small cruise ships that go where the big ones can't, hold only 116 guests and cost more than \$1,000 per day. Each cabin has a VCR, ship-to-shore phone, telex and color TV.

show they own 20 percent of all residential property, 30 percent of all liquid assets, 33 percent of all business property, 39 percent of all bonds, 50 percent of all stocks and 71 percent of all tax-free financial holdings.

Those targeting this market include the North American Watch Company, which did \$100 million last year in sales of watches with price tags ranging from \$500 to as high as \$3 million. Revenues from such lines as Piaget, Movado and Corum were up 20 percent from the previous year.

Christian Petrossian operates six U.S. stores in five cities stocked with exotic edibles. His finest caviar sells for \$448 a pound, his foie gras for \$100 a pound and his smoked salmon for \$35 a pound. Sales have doubled every year since he opened his first shop in 1980.

Exclusivity in food implies special preparation that combines quality with convenience, or unusual items that the average person would not buy. Small volume means high markup.

Gerard Rubaud, former president of Rossignol Ski Company, packages gourmet meals in plastic pouches. But these are specially created packages, using a special technique that allows them to be kept in the refrigerator for as long as four weeks without changing flavor.

Gerard's Haute Cuisine has created these flavors since 1983 in Fairfax, Vt., using three French and 12 American-trained chefs.

Revenues have gone from \$80,000 the first year to \$478,000 in 1984.

The creations, of course, do not come cheap. Ravioli will go for \$4.90 a serving, but filet of lamb with truffles or lobster in wine sauce command \$20.

Sweet Victory on New York's Third Avenue is less than a year old, and features low calorie ice creams, candies and cookies. "We offer guilt-free goodies," says general manager Tim Metzger.

The exotic offerings include tofu glaze (\$1.50 a scoop), cookies with a margarine

base (\$6.59 a pound) and more than 100 varieties of candy from sugarless chocolates to sour balls (\$1.50 to \$2.55 a pound). Two more stores are under construction, and franchising is imminent. First year sales, says Metzger, should exceed \$400,000.

When big spenders look for places to stay when they are on the road, they often gravitate to hotels like La Colombe D'Or, an elegant, old-world, six-suite hotel in Houston. John Glenn, Gary Hart and Walter Cronkite have all stayed there.

Once the private residence of the founder of the Humble Oil Company, the French-style chateau was bought in 1977 by lawyer Stephen Zimmerman and converted to its present use in 1980.

There are five suites on the second floor, each boasting its own dining room and living/sitting room, and each is furnished with antiques. The third floor is devoted to a penthouse suite of 2,000 square feet with dining for 70 people. It rents for \$400 a day. On the first floor are the requisite cocktail lounge, bar and dining rooms.

The hotel prides itself on its extensive wine cellar with 280 different vintages, costing up to \$600 a bottle. Particularly fine is its collection of Armagnac, a dry brown brandy, says general manager Ricardo Sanchez. One glass costs \$100.

Sanchez describes the ambiance of the hotel: "If I walked in without a suit jacket, I would feel out of place. More importantly, I would look out of place."

High fashion, synonymous with high spending, has long seemed the province of the name designers and Paris couture houses. But smaller operators can do well by staying exclusive.

Mickey Rosmarin was 18 when he opened his women's clothing store, Tootsie's, in Houston's tony Galleria center 13 years ago, with a \$10,000 loan from his father. "It was my escape from going to college," he says. Annual sales are \$4 million.

H OUSTON'S MONIED set does not bat an eye at Tootsie's prices of \$4,000 for gowns and \$300 for costume jewelry or blouses, not to mention jeans that start at \$100. A \$10,000 purchase is not uncommon.

Rosmarin treats his customers carefully. In between fittings they can relax with a glass of wine or a cup of espresso. Rosmarin will even do a client's hair. "The customers are our friends," he says.

Cerruti's, on New York's Madison Avenue, gives the same kind of service to men. A devoted clientele reads like a Who's Who of actors, judges, politicians and business executives.

Every item is hand sewn. Cotton and



linen handkerchiefs start at \$35, suspenders imported from France at \$75, shirts at \$110, sweaters and slacks at \$200. "Our customers know that they will get only the finest quality from us," says Leo Cerruti, Jr., vice president.

Many younger affluent customers are gadget-minded. They will spare no expense if the product has quality, does something unusual, is cleverly presented and backed up by personal service.

Audio equipment has always been in that category, and successful stores take customer service to new levels. Hollywood studio guitarist Eli Harary decided to open Paris Audio in 1975 to cater to the true audiophile's taste for perfect reproduction, no matter what the cost.

He chose a Los Angeles location within easy reach of Hollywood's free-spending movie millionaires, who think nothing of plunking down \$35,000 for a stereo system or \$5,000 for a giant 15-foot video screen.

FOR CUSTOMERS trying to make up their minds, Harary has installed a listening room that is revolutionary in its ability to capture the way music will sound in a home or car. He will also custom design a setting and install any product so that it will not intrude on existing room decor.

Richard Thalheimer started San Francisco's Sharper Image as a mail-order business eight years ago when he was 29. The company focused on electronic gadgetry. It has since expanded into six retail stores operating in major metropolitan centers, and it will open two more soon. Sales last year topped \$100 million.

Thalheimer's customers are typically male, 25 to 50 years old, with annual average household incomes of \$125,000.



Enter an adult toy fairyland at The Sharper Image, where car enthusiasts can race in the Thunderbolt mini car at a top speed of 24 miles per hour, or refresh themselves at the vintage solid oak ice chest that doubles as a bar and video center.

If they find the same product elsewhere at a lower price within 30 days, Sharper Image will offer a rebate.

Thalheimer's simple formula for success: "Just give people what they want, whether it's products or good treatment. The person who satisfies people will prosper."

The Sharper Image looks for unusual gadgets and gives them elegant settings. One customer says, "The items are always very clever, very practical, and the showroom and catalog presentations make your mouth water."

Typical of the atypical Sharper Image selection is a Japanese massage table (\$1,595), a communications command console for the executive desk (\$1,395) and a life-sized suit of armor with extensive scrollwork (\$3,800).

"We are a toy fairyland for adults," says John Whitaker, manager of the Washington store.

The Sharper Image also caters to customers' needs. Those dissatisfied with a product can return it within 30

days after purchase. The firm spends \$100,000 a month operating a toll-free customer service phone line.

Cars have provided fertile ground for companies catering to the upper crust's desire for something special.

Lanmark Cars in lower Manhattan—not far from Wall Street—was started in 1980 by two young men, Lance Ojeda, now 30, and Mark Starr, 29. They sell between 150 and 200 elaborately customized Mercedes-Benzes, Jaguars, Porsches and Ferraris a year. They anticipate \$4 million to \$5 million in sales this year.

Whatever the customer wants, they provide, from zap lights that will blind a driver following too closely, to a burglar alarm that squawks "Burglar! Burglar!" when an attempt is made to steal the car.

A white Mercedes sedan sits regally in the Lanmark showroom. Its owner, a real estate magnate, wanted every bit of chrome on the car—from fenders to stripping around the front and rear

windshields—painted white. Inside, custom wood paneling along the doors contrasts with the powder blue leather seats and steering wheel. The seats can be programmed so that with a touch of a button, the customer gets his favorite seat position. A phone is concealed between the two front seats. The rich tones of a \$5,000 stereo system swell throughout the interior. A computer is to be installed. Total price: \$70,000.

Both Ojeda and Starr like to keep in touch with the cars they sell. "We have an emotional attachment to them," says Starr. "They're like our grandchildren."

Designing and building custom cars is hot business for Ultra Limousine Corporation, of La Palma, Calif. The 50-person firm builds 200 limousines a year with an average sale price of \$45,000. "About 80 percent of our business is dedicated to the livery companies," says Craig Hodezel, marketing director. "They usually want the standard television, bar, stereo, sunroof and interior divider. The remainder are special orders from individuals and from companies trying to turn cars into mobile corporate offices."

One recent customer ordered a Mercedes limousine with microwave, refrigerator, computer, bar, phone and television. The price: \$125,000.

Four years ago, Ultra starting manufacturing stretch limousines. One model has 10 wheels and five axles, is 50 feet long and has a 12-foot swimming pool. Another is equipped with a mini hot tub.

Horse and boat owners have opened a new market for Ultra: the pickup truck limo. "We cut the truck in half and put in a limousine interior," says Hodezel. "That way, we give customers the amenities without sacrificing their need for a powerful truck to haul a boat or horse trailer." By the time a \$25,000 truck is outfitted by Ultra, its price can shoot up to \$50,000.

BOAT OWNERS are a rich market, because they are often repeat customers, says Ken Kranz, marketing director of Hatteras Yachts in High Point, N.C.

"The typical Hatteras buyer spends between \$500,000 and \$600,000 as he trades up to more expensive models," Kranz says. "He's probably been boating for some 25 years, is financially astute, more than likely owns his own company, works and plays hard and wants a boat that is easy to maintain and is durable and reliable."

The company's largest boat is 77 feet long, and by the time navigation and communication equipment is installed, the yacht can end up costing close to \$2 million, Kranz says.

Kranz says he has noticed a downward shift in owner age and experience, and to capture this younger market, the

company has scaled down its smallest boat size from 37 feet to 32 feet. The price is still steep. Most stripped-down boats of that size run \$60,000, but a Hatteras 32-footer sells for \$90,000.

For the wealthy adventurer who has seen it all and wants to try something different, there is Society Expeditions. Started in 1975 by T.C. Swartz, then 28, the Seattle-based travel agency has more than 30 trips available on land, ship and rail. Trips can range from a low of \$1,900 for the traditional Caribbean cruise to \$1 million for a once-in-a-

Lanmark Car owners
Mark Starr (left) and
Lance Ojeda sell
customized designs of very
expensive foreign cars.



lifetime space flight, scheduled for the mid-1990s, that will include 48 orbits around the earth.

Business has been brisk for the firm. Last year, gross revenues exceeded \$10 million. Swartz believes that in the next three years, annual revenues will hit \$30 million.

Sports enthusiasts at upper income levels have long turned to Abercrombie & Fitch for classic English outfitting. The retail firm presents itself as a rich man's club. Its 18 stores in 14 cities have brass railings, oak pillars and staircases, antique furniture and thick carpeting. Merchandise combines the best of traditional and up-to-date clothing for sports, travel, camping, fitness and leisure.

There are also exotica like the coat made from coyote skins for \$3,800, a hand-carved limited edition duck decoy for \$3,000 and a gold-plated dumbbell for \$1,500.

Abercrombie & Fitch customer service is also top of the line. Each salesperson is an expert in a particular sport or activity. Cary Summers, general manager and senior vice president, answers all customer correspondence himself. Each store will write a thank-you card to any customer making a purchase. Special services, such as monogramming and alterations, carry either a minimal charge or none at all.

The company racked up \$33 million in sales last year and expects \$50 million in 1985.

Big spenders even have their own banks. The Bank of San Francisco was begun in 1979 by real estate lawyer and developer Don Richards Stephens, 46, who is its chairman.

"A group of friends and I—all pretty successful in our respective businesses—just couldn't find a bank that served our level of borrower-customer," Stephens says, "so we thought, why not start our own bank."

They did. The typical bank customer is a partner in a law, accounting, brokerage or insurance firm, or is a top corporate executive who makes at least \$100,000 and often as much as \$1 million. His net worth, excluding his home, is between \$500,000 and \$10 million. He also likes to borrow money. The minimum loan amount is \$50,000; the average is \$250,000.

"We do no consumer business," says Stephens. "We are strictly a commercial deposit and loan facility. We don't do giveaways or promotions or have tellers behind counters. Customers conduct their transactions within private enclosures. Loans usually are closed over lunch in the bank's dining room."

Clients are either known personally by the bank staff or have been referred by intermediaries. There is no walk-in business.

Stephens expects assets of \$10 million by the end of this year. He credits his success to responding quickly to customer demands, not having a continuous turnover of loan personnel (common to many banks now) and not attempting to service every need.

"We have a motto," he says. "If you do something very well, you can't do it for everyone."



To order reprints of this article, see page 57.

DAVID J. is a Florida insurance agent who likes to keep a tangible kind of insurance in his safety deposit box.

"I've got my house insured," he says. "I've got my car insured. I see owning gold coins as a kind of insurance policy, too."

Like thousands of Americans, David J.—he prefers that his last name not be used—began investing in foreign gold coins a decade ago when Congress lifted a 42-year-old ban that prohibited gold ownership except for collectors' items or jewelry.

What David J., as well as other "gold bugs," commodities dealers and an unusual coalition of liberals and conservatives, now want is for Congress to go one step further and authorize production of a U.S. coin to compete with the South African Kruggerand and the Canadian Maple Leaf.

Says a spokesman for Rep. Frank Annunzio (D-Ill.), chairman of a House subcommittee on coinage: "Americans would rather buy American coins than foreign coins. If that's what people want, we ought to give it to them."

Annunzio's views are shared by bullion coin dealers such as Terence Hanlon, general manager of the Dallas Gold and Silver Exchange.

"There is a great market out there that is not saturated," says Hanlon.

Both the House and Senate are considering legislation that would authorize the U.S. Mint to produce a coin like the Kruggerand that would come in ounce and half-ounce sizes and sell for the market price of gold plus a small commission.

Gold has been selling for about \$320 an ounce in recent months.

Similar proposals have been offered in the past, but new elements—the anti-apartheid factor and the U.S. trade deficit—have been added to the political equation, giving the traditional proponents of a gold coin new support.

Many in Congress, for example, say that one way to do something about South Africa's racial policies is to cut into a large source of revenue for the South African government—the Kruggerand.

JUDITH HASSON is a United Press International reporter covering Congress.



Terence Hanlon is among those who think there is a marketing opportunity for U.S.-minted coins.

ocratic Whip Alan Cranston of California has sponsored legislation to produce a gold coin, made both these points when he proposed the measure.

Dole says 3 million gold coins are imported into the United States each year, and there is "no reason why the U.S. Mint cannot compete in that market."

Similar legislation was sponsored in the House by Rep. Jerry Lewis (R-Calif.) and a former chairman of the Congressional Black Caucus, Rep. Julian Dixon (D-Calif.), in a bipartisan effort backed by more than 200 members.

Politicians on both sides of the political fence are now trying to work out a compromise that would meet the approval of the U.S. Treasury.

A number of bills are floating around. Dole hopes to gather support for his proposal calling for a gold coin that would have no face value but could be used as legal tender—money to purchase goods—in certain circumstances (i.e., a contract could be written calling for payment in gold).

Congressional aides think the proposal has a good chance of making it through the 99th Congress, if issues

like the federal budget deficit and tax reform do not sidetrack it.

Although the U.S. Mint marketed gold from 1980 to 1984 in medallions and a limited edition Olympic gold coin, the proposal would make gold coins generally available for the first time since 1933, when President Franklin D. Roosevelt ordered gold coins out of circulation during the Great Depression in an effort to stimulate inflation and the nation's failing economy.

Many Americans hoarded their gold pieces and did not turn them over to the Treasury.

Most of those coins contained an ounce of gold and were worth \$20—the price of gold at the time. Gold dealers say one of these "Double Eagle" coins minted in the 1920s or early 1930s now commands \$700 on the coin market.

The one-ounce coin called for in today's legislation, to be manufactured by the U.S. Mint and made available to investors, would also be named the Double Eagle. It would sell for much

Gold You Can Hold

Advocates of a U.S. gold coin say we are missing a big market.

By Judi Hasson



In 1984, South Africa sold 2.6 million Kruggerands, and the biggest market was the United States.

There also are those who see the marketing of an American gold coin internationally as a means of helping to offset, at least in a small way, the U.S. balance of payments problem.

Senate Majority Leader Robert Dole of Kansas, who along with Senate Dem-

more than the old Double Eagle did, obviously, because of the increased value of gold.

But it would sell for less than the old Double Eagle does now, because of the latter's collector's value.

John Exter, a retired Mountain Lakes, N.J., banker and monetary consultant, says he believes there is a market for U.S. gold coins because people



would prefer to buy American if a coin were available.

"I own Krugerrands, Maple Leafs, Austrian Coronas, but I'd buy a few American coins because they are minted here," says Exter.

However, opponents of the proposal say minting a U.S. gold coin will do nothing to hurt apartheid or help the U.S. balance of payments.

James Galbraith, a Brookings Institution economist, maintains the anti-apartheid advocates have managed to come up with a "new twist" in promoting U.S. gold, but it is not a good way to further public policy.

"This is a use of the federal government for an essentially private commercial purpose," Galbraith says. "I cannot see that the addition of a U.S. gold coin would drive the Krugerrand out of the market."

Henry Reuss, who served on the U.S. Gold Commission set up by Congress to investigate the feasibility of gold coins and a gold standard, says every new demand for gold on the worldwide market helps South Africa—the world's No. 1 producer of gold.



"If the idea is to get more people to hold more gold than normally, then that's going to hurt our balance of payments," says Reuss, a former congressman who was chairman of the House Banking Committee.

In 1982, the Gold Commission, with Reuss dissenting, recommended the production of a new gold coin to be sold in competition with Canadian and South African coins. The commission said the coins should not be legal tender.

Dealers around the country maintain that gold coins, if properly marketed by the Treasury, could become a popular way for Americans to have a personal hedge against inflation.

"People buy gold because they feel it's a way to preserve their buying power," says Luis Vigdor, vice president of Manfra, Tordella Brookes, Inc., of New York, a major dealer in coins and precious metals.

Hanlon, the Dallas coin dealer, says other countries already have benefited from creating alternatives to the Krugerrand.

For example, he says, Britain recently introduced a gold coin called the Angel, which sold like wildfire in the Unit-



ed States, and Mexico marketed a silver coin, the Libertad, which moved swiftly on U.S. markets.

Though South Africa and Canada currently hold the bulk of the world coin market, you can buy a gold coin from the Falkland Islands, Macao, Malta, Mauritius, China, Chile, the Isle of Man, the Cayman Islands—65 countries or jurisdictions in all.

But it is South Africa that is king of gold—mining 21 million troy ounces a year, or 48 percent of the world's total gold output. Next come the Soviet Union, which mines 9.2 million ounces, Canada, which mines 2.6 million, and the United States, 2.1 million.

Faced with pressure in the last few years to produce a U.S. gold coin, the Mint has issued gold medallions and sold 1.7 million of them in ounce and half-ounce pieces. But dealers say the program flopped because of poor marketing and failed to grab a fair share of the market.



The Mint also raised money for the U.S. Olympics by marketing gold and silver coins. The Mint recouped the coins' cost, and a markup went to the Los Angeles Games.

There is interest, particularly in the Western states where silver is mined, in producing a silver coin, too.

Some members of Congress are pushing hard for a silver coin, which they argue is the best way to dispose of 137 million troy ounces of surplus silver now in the nation's strategic defense stockpile. Silver was last minted in a U.S. coin in 1970.

Sen. James McClure (R-Idaho) is sponsoring a bill to create a Statue of Liberty commemorative coin that would raise money for the restoration of Lady Liberty.

John Lutley of the Silver Institute, a Washington-based organization that provides technical expertise on silver, says there is just as big a silver market as the one predicted for gold coins.

A SURVEY for the Silver Institute in 1983 found that 59 percent of the Americans who responded believe it is important for the U.S. Mint to produce gold and silver bullion coins. The survey also found strong consumer interest in one-ounce American silver bullion coins priced about \$14.

Buying silver coins would be one way for the average John Doe to participate in investing in precious metals at affordable prices, says Dennis Wheeler, president of the Coeur D'Alene silver mines in Idaho.

"There aren't too many of us who can afford to buy a bar of gold or silver," he says, "but a coin for \$10 is something many Americans can handle."

All involved say that if gold and silver coins are authorized, it will take some good marketing to make them sell.

No one wants a repeat of the Susan B. Anthony dollar coin disaster.

The Mint produced 800 million coins, and 500 million of them remain stored in the Treasury's vault because Americans confused the oddly shaped coins with quarters and refused to use them.

Smalls Stand Tall

A 1980 White House conference had widespread impact. What effect will its 1986 successor have?

ONE YEAR from now, 1,823 delegates will converge on Washington for the third White House Conference on Small Business under the theme, "In the Spirit of Enterprise."

These conferences have come a long way since a shattering 1938 debut, which was climaxed by brawls and fist-fights. Participants were none too pleased by President Franklin Roosevelt's calls for small business support of his New Deal programs that increased government spending and business regulation.

More than 40 years elapsed before another President, Jimmy Carter, decided to convene a second conference in 1980. This time, order prevailed. The delegates exhibited a "statesmanlike approach to critical national policy issues," said U.S. Chamber of Commerce President Richard Leshar.

A list of 60 specific regulatory and legislative recommendations was drawn up. Administrative and congressional reaction was swift. More than 40 of the suggestions were either wholly or partially implemented by 1984. Among the results: the Paperwork Reduction Act, the Regulatory Flexibility Act, the Equal Access to Justice Act, the Small Business Innovation Development Act and several procurement reform initiatives.

The 1980 conference "was a beginning, a first step," says Jack Courtemanche, executive director of the '86 conference. "It was a time for clearing up some basic small business problems, addressing certain concerns." However, he says, "many questions remain unanswered." Now, five years later, "small business is prepared for the task that lies ahead," Courtemanche says confidently.

Next year, there will be some changes. Gone will be the "laundry list mentality" of detailed and narrow recommendations that apply to a specific constituency, says one observer. Instead, emphasis will primarily focus on national issues that affect the whole business spectrum and how they relate to overall small business objectives.



Chas Cadwell, deputy general counsel of the Small Business Administration, has been coordinating task forces set up to discuss nine areas: procurement, regulation and paper work, taxation, innovation, education and training, payroll costs, finance, economic policy and international trade.

"We encouraged the task force members—all small business people—to take long-range views in identifying interesting, important and new issues, and to just lay them out—not start formulating policy," he explains. "Preliminary policy guidelines should be addressed at state meetings and ultimately ironed out into solid policy recommendations at the national conference."

With the 1986 conference still so far off and the first state meeting starting on August 9, NATION'S BUSINESS interviewed some of the small business owners and managers who were 1980 delegates about what was accomplished then and what may be next year.

John Sawyer is chairman of Erdmann

Corporation, a wholesale supply and industrial distributor in Louisville, Ky. He praises the '80 conference for "calling attention to how important small business is to this country's economy."

Sawyer says he was one of many delegates who thought the meeting five years ago was going to be "nothing more than a dog and pony show—just a political charade. We were all pleasantly surprised by the way it turned out and the impact it had. We thought we were going to be brainwashed and cajoled."

Budget deficits and regulation are "still important issues that need resolving," Sawyer says. "They're not going to change overnight."

The '80 conference "was a solidifying influence for small business, imbuing us with a sense of unity in identifying priorities and reaching a consensus," says Earl Hess, president of Lancaster Laboratories, a professional services firm in Lancaster, Pa. "We are now a force to be reckoned with. When small business speaks, people no longer view us as a lone voice crying in the wilderness that can be easily ignored."

Hess believes that budget deficits "need to be controlled—once and for all. We have to get some fiscal and economic balance in this country or there is no future for any of us."

Like Hess, Dick Johnson, vice president of finance for Limoniera Company, a Santa Paula, Calif., citrus and avocado grower, is concerned

about deficit spending as well as capital access and paper work reduction. He hopes that the '86 conference will "put more emphasis on the follow-through of issues to the point where meaningful legislation is implemented."

In Johnson's estimation, one of the '80 conference's achievements was "reawakening the interest of small firm owners who had never participated in a national way before." Courtemanche knows of four small business owners who were so challenged by their participation as delegates in the conference that they decided to extend their interest by seeking national office. They are now



Jack Courtemanche is executive director of the third White House Conference on Small Business, to be held next summer.

PHOTO BY THE WHITE HOUSE

serving as representatives in Congress.

If the '80 conference did anything, it "portrayed us as a unified group who could reason together and establish a legitimate small business agenda, overcoming regional and competitive differences," says John Rennie, president of Pacer Systems, Burlington, Mass., and a member of the board of directors of the U.S. Chamber of Commerce. Rennie says the 1986 conference should take up issues of deficit reduction, foreign trade and international competition,

for a fresh and greater show of strength in 1986.

Sen. Lowell Weicker (R-Conn.) chairman of the Senate Small Business Committee, is looking forward to next year's event. "As a vital—perhaps the most vital—sector of this nation's economy, the time has come once again for small enterprise to re-examine its relationship with the federal government, its problems, its potential and the incentives and disincentives that affect its growth," he says. Small business own-

delegates, and governors, senators, congressmen and executives of U.S. territories will select another 595.

Promoting the conference is a major undertaking. "We want to publicize the conference as much as possible right from the start," says Courtemanche. "We want everyone to participate."

One avenue he is pursuing is running public service announcements on radio and television and in the newspapers. Another is to actively seek the help of small business groups.

The U.S. Chamber of Commerce, which numbers tens of thousands of small firms among its members, has issued a statement pledging commitment to "achieving a successful conference consistent with its potential significance to the growth of entrepreneurship and private enterprise in the United States."

CONFERENCE leaders will be able to avail themselves of Chamber volunteer and staff expertise for guidance on concepts and operational techniques and for analytical insight on critical issues. The Chamber will also act as an information conduit about conference activities and issues for trade associations, state and local chambers of commerce, and small company owners and managers through its publications, television and radio programs.

Chamber Chairman Frank Morsani exhorts all small business people to take advantage of the opportunity to "re-energize our efforts to look at the status of small and entrepreneurial businesses, so the entire nation can benefit from the vitality, innovation and competitiveness they offer in a world of global market competition."

At National Small Business Week ceremonies last May in Washington, President Reagan commented: "The greatest innovations for new jobs, technologies and economic vigor today come from a small but growing circle of heroes—the small business people."

Statistics culled from the Small Business Administration support Reagan's statement. The agency reports that small firms are responsible for 38 percent of the gross national product, 42 percent of all sales and 48 percent of private employment.

In 1984, new small business incorporations totaled about 650,000, a record that upstaged the previous year's record of 600,000.

As Rep. Silvio Conte (R-Mass.) has observed: "Small business has now come of age. During the '80 conference, it was like watching the development of small children through childhood and puberty. In 1986, small business will have reached full adulthood."

—Mary-Margaret Wantuck



The Small Business Administration is coordinating task forces to set up the agenda for the conference. This task force on economic policy was meeting in June.

and press for more small business representation on advisory councils in government and in the private sector.

The 1980 conference had a decided impact on state governments as well as on the federal government.

Some states are now providing management counseling and financial assistance to small businesses. Others have small business ombudsmen. A few have set aside a portion of purchasing exclusively for small suppliers. Several legislatures have small business committees. More than 30 states have held small business conferences.

New Jersey's annual governor's conference on small business has resulted in an overhaul of the state's income tax laws to ease corporate and inheritance tax burdens on private companies.

Utah's state conference has begotten such legislative actions as speeding up payment to small firms doing business with the state, providing reimbursement for legal fees for businesses that succeed in fighting unreasonable bureaucratic actions, and making the state's unemployment compensation program less costly for many small employers.

Riding on the successful coattails of 1980, small business is now gearing up

ers and operators "deserve this access to the federal government," Weicker maintains, "as the most important and basic element in our economy."

The 1986 conference has six goals: to increase public awareness of small business; to identify small business problems; to examine the status of minorities and women in business; to assist small businesses in their role as national job creators; to develop new recommendations that will affect small business; and to review the status of issues dealt with in 1980.

One-day conferences are planned in each state plus the District of Columbia and Puerto Rico. New York and California will hold two one-day conferences. The first state gathering will be held in Richmond on August 9 and the last in Syracuse, N.Y., on May 22, 1986.

Those small business people wishing to be elected national delegates must first attend the conference in the state where they live. Other eligibility requirements: They must be owners, partners or corporate officers in a small business, and the business can have no more than 500 workers. Ultimately, 1,128 national delegates will be elected from among the state conference participants. The President will appoint 100

Computerized codes are now used to keep tabs on runners in the New York Marathon.



PHOTO: WILL REYNOLDS - WOODFIN CAMP



MARATHON PROGRAM

Putting the Computer Through New Paces

By Al Holzinger

FRED LEBOW and his computer have put some byte into the New York City Marathon, America's largest.

Lebow and his New York Road Runners Club have been coordinating the race since its inaugural, Sept. 13, 1970, in Central Park, with 126 entrants. In 1976, when the 26-mile, 385-yard race was rerouted through New York's five boroughs, it had about 2,000 contestants.

Seven years later, the field had grown to more than 15,000 runners, and Race Director Lebow and MDS Qantel, Inc., had established electronic data processing among other traditional marathoning necessities such as water, petroleum jelly and safety pins. As a result, its director says, the 1983 marathon was the best-organized and -documented race in history.

"We had begun computerizing the application process and the scoring [of the marathon] as early as 1976 in the

face of increasing numbers of applicants," Lebow says. "It was the only way to keep up with unbelievable demand."

Qantel has long produced computer hardware and software for specific sports. The Hayward, Calif., firm created scouting and performance-measuring systems for college and professional baseball, football, basketball, hockey and soccer teams as well as for road-race directors.

In June of this year, more than 60,000 athletes from the United States and scores of foreign countries had requested a 1985 marathon entry form. The completed forms provided the Road Runners with a profile of each entrant, including name, sex, age, previous marathon experience and the runner's projection of his or her 1985 finish time.

Vital statistics of the approximately 19,000 entrants chosen to compete in the October 27 race (the choices are on

the basis of a fast previous finish time, a July lottery or one of several other criteria) were entered into the club's computer.

Competitors will be sent a computer-generated, bar-coded registration card—their ticket to the event.

When race time comes, and what amounts to the population of a small city queues up for race numbers, the assignment of numbers could paralyze the best system. But race organizers have adapted a technology that is beginning to find many business applications: the bar codes used at the check-out counters of supermarkets.

Each runner's registration card is read by a Computer Identities Corporation laser bar-code scanner. Then, the race "bib"—the number a runner puts on his or her shirt—is produced by a high-speed laser printer.

The process takes only seven seconds per registrant.

Road Runners officials put their computer to an even more strenuous and fast-paced test at the finish line on race day.

AT PEAK TIME, more than 200 contestants cross one of three adjacent finish lines every minute. Scorers use rapid-fire computer "triggers" to signal each runner's finish to the computer. Bar-coded portions of finishers' bibs are collected and taken, in order, to a nearby trailer.

There, Qantel-provided technicians



Registering and tracking hordes of runners—there were 18,000 last year—could be chaotic. So marathon organizers have adapted a technology that is in use at supermarket checkout counters.



An MDS Qantel, Inc., computer helps the New York Road Runners Club sell—through catalogs and this store—the more than 400 items the club produces.

scan the bar codes, and the computer correlates names with finish places and times.

Within hours, in a feature unique to the New York Marathon, successful contestants are mailed a postcard bearing their overall finish place, place by sex and age, finish time, pace per mile and the acknowledgement, "Congratulations! You're a finisher."

In 1983, the first year postcards were sent, most finishers learned about their performance the day after the marathon.

Finishers in earlier years were not informed of their time and rank until weeks later when the next issue of *New York Running News* magazine was published by the Road Runners.

A novel wristband that is part of the system can help runners trim their personal record finishing times. A perforated strip on the bib contains a runner's computer-projected elapsed time at 5 miles, 10, the halfway mark of 13.1, 20 and 25, based on the finish time predicted on his or her race application. The strip with these "split times" is worn like a hospital identification bracelet during the race.

EXCEPT FOR a few elite runners, a marathon, unlike shorter races, is a test of pace and patience, not of foot speed. This is especially true for first-time marathoners, and the 18,000 runners in the 1984 New York City race included more than 3,200 male and 1,300

female competitors who had never completed a sanctioned 26.2-mile run.

Runners who adhere to pre-race strategy by using the wristband to guide their pace can resist the adrenaline-induced temptation to run too fast during early race miles in Brooklyn. And runners using their wristbands as a guide gain additional motivation to maintain pace during later miles in the Bronx and upper Manhattan.

Before last year's marathon, Lebow predicted that the novel wristbands would result in the setting of "a new record of personal records. They should help runners stick more closely to their pre-race strategy during the heat of competition."

The summery heat of last year's run spoiled most time-trimming efforts—even the computer can't fool Mother Nature.

Improving finish times and marathon administration is not the Road Runners' only use of high technology. The computer helps increase membership and revenues.

Even for nonprofit sports organizations, Lebow says, the numbers count. "Nonprofits must operate like any other business—establishing budgets and meeting financial goals. Our members, in effect, are stockholders in our organization."

A decade ago the Road Runners Club had 300 members and three people on its payroll; today it boasts more than 22,000 members and 30 employees.

Computer-targeted mailings have helped recruit members. Much of the target audience is made up of competitors in previous marathons and in the club's more than 150 other annual races.

This audience receives more from the club than membership offers.

In 1978 the Road Runners developed a line of athletic clothes, accessories and books. The merchandise is sold primarily to visitors and recipients of 700,000 color catalogs the club mails each year.

Sales of the more than 400 cataloged items of varying types, sizes and colors now total about \$500,000 a year, according to Lebow, and have been increasing at an annual rate of about 20 percent. Except for individual and corporate memberships, merchandising has become the largest source of the club's \$4 million in annual revenue.

The computer also manages the Road Runners' payroll and other accounting systems, a race calendar involving more than 100,000 runners a year, and 200 annual classes and clinics geared toward "everyone from elite, world-class runners to those in the Ryker's Island prison," Lebow adds.

"Like any business moving through a period of rapid growth," he says, "we had to adjust to increased demands on our resources and on the time of our key personnel."

"We responded to these pressures by computerizing."

So You Want To Be in Movies

By Ray Brady

RAY BRIBIESCA, a high-income television cameraman, owned a nicely balanced portfolio of common stocks along with some tax-exempt bonds. "I thought I could afford to get into something a bit chancy," he says.

So he got into a field allied to his work: He put money in Delphi Partners, a limited partnership formed to back movies. Bribiesca has a stake in 10 films, and his return will be determined, in part, by how well they do. As it happens, two of them are Sylvester Stallone films that are doing quite well—"Rocky IV" and "Rambo: First Blood Part 2."

More than the promise of hefty profits is involved. Bribiesca, in the first year of his investment, can write off \$7,000 in expenses incurred by the films. The tax saving cuts down the amount the cameraman has at risk in the films—"and," he says, "I've got an investment with a little pizzazz in it."

That pizzazz—the chance to invest in a business with a lot of glamour to it—is being offered by several major brokerage houses: E.F. Hutton has been selling a series of movie programs under the Silver Screen aegis, Merrill Lynch markets Delphi Partners, and Shearson/American Express has been handling Balcor Productions. Hollywood studios welcome the programs as a source of capital in a period of high interest rates.

Investors get a piece of a varying number of movies, often in various stages of completion. In Silver Screen II, for example, investors will be putting up 25 percent of the cost of four as-yet-unreleased movies turned out by the former management of Walt Disney Productions. They will also put up 100 percent of the cost of 8 to 10 films that will be made by the current Disney management team.

Bribiesca invested \$10,000, but some programs accept as little as \$2,000.

Is this an investment for everybody?

RAY BRADY is the business correspondent for CBS News.



Investing in films can be exciting, both for the romance of it and for the chance to make big money on a hit like "Rambo."

Basically, it is for someone who is willing to put safety second.

As many analysts note, movies may be fun to watch, but they can carry more risks for investors than "The Perils of Pauline." Some of the biggest blockbuster films—in the make-believe world of Hollywood, "blockbuster" often means "expensive"—have turned into bombs at the box office. Even the casting of a superstar in a film does not guarantee box office success.

An added warning: The cost of making movies has been rising steadily. The Motion Picture Association of America says the average film made or partly financed by its members cost \$11.9 million in 1983 and \$14.4 million last year. Theater revenues were up last year, too, but that was largely due to higher ticket prices—not because more customers passed through the turnstiles.

Still, the sale of videocassette recorders for home use is booming. That means that revenues from the videocassette market, or from pay TV, can tip a marginal film into the black. If a popular singer is in a movie, such as Madonna in "Desperately Seeking Susan" or Prince in "Purple Rain," the film could easily earn more in cassette or pay-TV sales than in theaters.

Just how much can the investor-partner make in the movies? This type of investing is relatively new, but previous partnerships provide clues. One of the first—Delphi I—was marketed in 1982. A \$10,000 investment in Delphi brought the same first-year tax deduction that Ray Bribiesca is getting: \$7,000. The following year, the investor got a \$700 investment tax credit, along with cash. According to projections, the partners will have received \$4,000 in cash by the end of this year.

The potential investor, of course, should read the prospectus carefully. In the Disney-Silver Screen offering, for example, if the films go bust, Disney has offered to reimburse the investors 15 years from now.

Which sounds like an offer you can't refuse. Except that the Internal Revenue Service says this means an investor is not taking any risk. No risk, no tax write-off.

AT THE INVESTMENT firm of First Boston Corporation, analyst Martin Romm is a pessimist on partnerships. "You're better off buying a studio's stock than investing directly in a package of films," he says.

What about that dark cloud hanging over the cinema—the President's tax reform package? Although partnerships of smaller size are not currently targeted, the investment tax credit almost certainly is marked for slaughter, and movie companies make heavy use of it. (Most production companies are in a below-20 percent tax bracket.)

People marketing film investments admit that tax reform could bring change. "But," argues one, "if you put up the money this year, you're getting tax breaks in a year when you're in, say, the 50 percent bracket. If your program makes money in 1986, or later, then you would be getting income when you were in the 35 percent bracket."

Ray Bribiesca may have the final argument. "Look," he says, "I know I'm risking some money—but I'm having a lot of fun with it."

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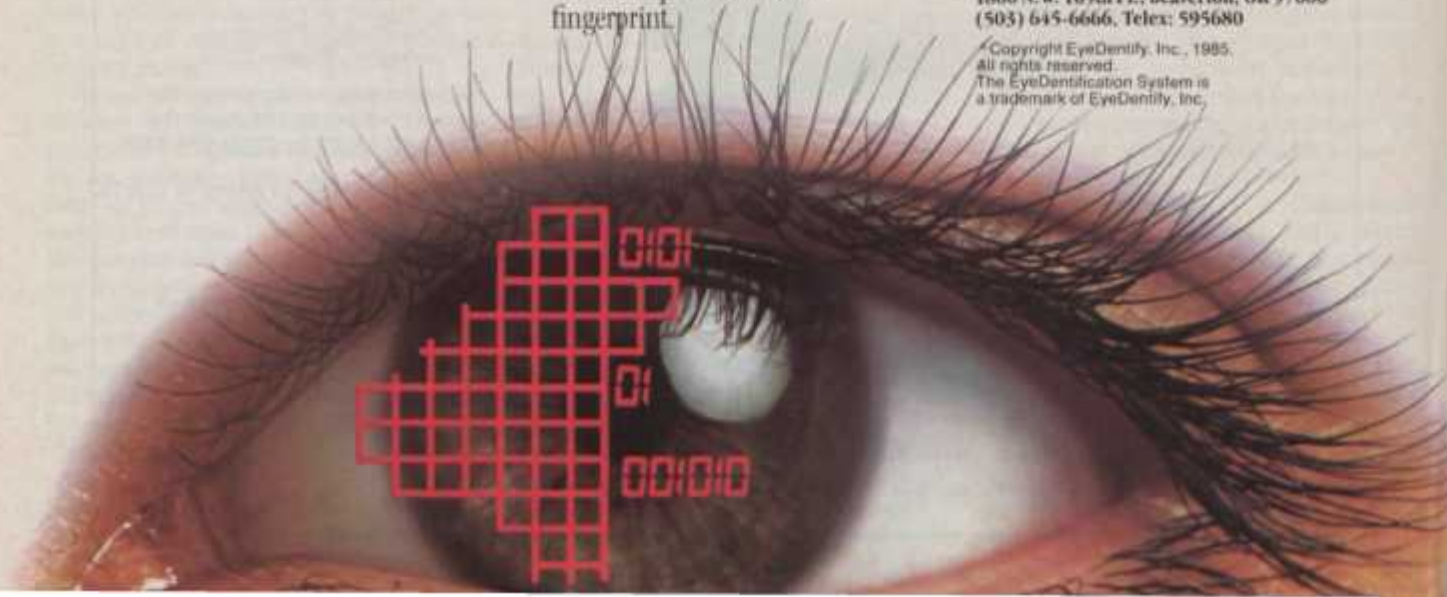
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Rolling Out a Red Carpet

States are wooing foreign investors of all sizes, from Japan's Sony to Danielle Prosciutto's Vlado Dukcevic.

By Manny Ellenis

THE ENORMOUS escalation of foreign investment in the United States has states sending representatives abroad to seek out investors, just as in the past they have gone to other areas of this country.

According to David Bauer, manager of investment data and research at the Conference Board, direct foreign investment in the United States now exceeds \$130 billion—a stunning leap of 900 percent since the \$14 billion of 1973. This represents “bricks and mortar” and does not take into account the untold dollars invested in U.S. stocks, mutual funds and other securities.

Growing foreign investment in the United States is one reason why many governors travel far and wide to help sell their states. Some governors get more involved than others, zeroing in

on overseas prospects when they come to their states. For example, in Alabama, which has attracted more than 100 foreign companies from 19 countries, creating 20,000 jobs, Gov. George C. Wallace is constantly selling his state to foreign executives at meetings in Montgomery or on the telephone.

Rhode Island, which has attracted 39 foreign companies with a total investment of \$200 million, has profited from wooing the individual foreign entrepreneur with an off-beat product.

A case in point is Vlado Dukcevic, president of Danielle Prosciutto, Inc., in Pascoag, a small town about 25 miles from Providence.

Arriving from Italy eight years ago with a knowledge learned from his father and grandfather in Trieste of processing prosciutto, dry-cured spiced Italian ham, Dukcevic immediately started looking for a likely site.

Dukcevic, who was born in Yugoslavia, realized that the major markets for his high-priced delicacy—now retailing for \$11 a pound in New York City gour-

met shops and sold as far away as Latin America—are in the Northeast.

“I was looking for a site that would give me proximity to the big Boston-New York market, access to quick transportation and plenty of clean air,” he says. Why clean air? “Because it takes 9 to 10 months to dehydrate a fine 20-pound boneless ham enough to make 10 pounds of prosciutto, and the key is lots of fresh, clean air.”

Dukcevic investigated the New England states, finally selecting Rhode Island. “I was a nobody, not even a bright scientist with a hot idea, but the Rhode Island development people treated me like I was General Motors,” says Danielle’s founder.

Working with a Providence-based legal firm that brought him to the Fleet National Bank and then to the Rhode Island Port Authority and Economic Development Corporation, Dukcevic got a 15-year, \$2.1 million loan at 8.5 percent interest for a 55,000-square-foot building, land and equipment.

Eight years later, Danielle has ex-

MANNY ELLENIS is executive vice president of Development Counsellors International, a New York-based firm specializing in economic development marketing.



Prosciutto ham requires lots of time, salt and fresh air before it is properly cured. Danielle Prosciutto, Inc., found the air it needed in Rhode Island.



panded to 84,000 square feet and employs 40 Rhode Islanders making prosciutto and other processed food delicacies.

Although cities like New York, Chicago and Los Angeles have cashed in on the reverse investment boom, the biggest concentration of direct foreign investment per capita has been in Spartanburg County, S.C., with an area of 830 square miles and a population of 210,000.

About 60 foreign companies representing 12 countries now operate in Spartanburg, employing 7,000 people. The investment tag is put at \$1 billion.

And the foreign names are big, including Hoechst Fibers, Michelin Tire and Reiter Machine, the Swiss builder of textile machinery. Equally large are some of the domestic corporate citizens: Monsanto Electronics, National Lock, Calvin Klein, Westinghouse Nuclear and Borden.

According to Walter M. Lee III, executive vice president of the Spartanburg Area Chamber of Commerce, the formula for success involves a three-pronged strategy: (1) Spartanburg conducts careful studies to determine exactly what kind of companies, foreign or domestic, can make optimum use of local assets; (2) the city has initiated a \$2.3 million "New Beginnings" program to reach out to industry worldwide and tell the Spartanburg story; and (3) officials and volunteers at the Spartanburg Chamber of Commerce do the follow-up work to make sure that promises are kept—that the financing is there, that the plants are built, that workers are trained and ready for the newcomers.

Companies in Canada—particularly producers of high technology equipment—increasingly are setting up branch manufacturing operations in the United States. It is a question of sheer economics. Many of these companies use U.S. components that carry import

duties. When the finished product is exported to the United States, more duties are imposed. Therefore, production within U.S. borders is essential to keep the price tag competitive.

One case in point is Montreal's Muller Manufacturing, Ltd., a builder of state-of-the-art pallet-wrapping machines. These are truly high tech pieces of equipment; they rely heavily on sensors and microprocessors in stretching plastic film around palletized cargo to protect it while in transit.

The machines were developed and perfected by Wolfgang Geisinger, an immigrant from West Germany and a classic entrepreneur, who got started in his garage 13 years ago. Today, his plant in Montreal employs 65 and is due for a major expansion to keep pace with orders—now about \$8 million per year.

WHEN IT BECAME apparent to Geisinger that branching across the border was imperative, not only to trim the price tag but to gain closer proximity to markets, he gave the site selection assignment to Ron Parent, his director of U.S. operations.

Parent tackled the job without a consultant and began to contact chambers of commerce and industrial development groups in cities including Buffalo, Messina, Rochester, Syracuse and Watertown, all in New York, as well as Dallas, Burlington, Vt., and the Raleigh-Durham area of North Carolina, the home of Muller Packaging Services, a subsidiary engaged solely in distribution.

Final choice? Syracuse. Muller has leased a 30,000-square-foot former warehouse in Syracuse and has created jobs for 23 individuals. Parent says he is delighted with the results.

The seven-month process began with a phone call to Jeffrey Swartz, director of corporate development at the Greater Syracuse Chamber of Commerce, in response to an advertisement in a Cana-

dian trade magazine. Parent wanted the basic information kit and community profile. He was so impressed that a few more phone calls resulted in a personal visit.

That is when the chamber swung into high gear. Parent met with the chamber's Swartz, David Krietor, vice president for economic development, and Sam Williams, senior consultant. Parent wanted specific information on issues such as wage rates for particular jobs and power consumption rates for specific types of machinery. He got it.

Parent then weighed Syracuse against his own location criteria. Some of the facts that helped convince him: It is the closest U.S. metropolitan area to both Montreal and Ottawa, and it is the second biggest distribution hub in New York. Materials can be purchased locally. Qualified labor is abundant. The international airport is convenient for executives' travel. Quality of life is high.

The real clincher, Parent says, was personal assistance by the chamber team. "These people put in 10-hour days and worked weekends just helping me scout buildings," he explains.

Industrial prospects from overseas approach the selection of sites with an orientation slightly different from that of their U.S. counterparts. Jim Pugh, managing director of the Flexible Packaging Division of Lin Pac Containers, which is based in Louth, England, and has five U.S. operations and is planning a sixth, says development agencies, public or private, must fit the prospect's needs to the site and not provide data on a great number of communities for political purposes.

Also, Pugh says, the most important factor is the cost of doing business, including labor costs. Although lifestyle is important, Pugh says, foreign firms must be careful not to be dazzled and must make sure that the industrial infrastructure is in place and compatible with their needs.

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Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and in Congress.

1 More Public Work For Private Firms?

Private firms can do many things now done by city, state and federal employees. Advocates of the government's contracting out such tasks say taxpayers get services at less cost. Also, the contract winners pay more taxes, and that can help keep individuals' taxes down. Critics say that the contracts are hard to administer, that public employees are more dependable and that contract winners may pay lower wages. Should government give more public work to private firms?

2 Who Is To Pay For Superfund?

A Senate panel has approved a sixfold increase in the size of the hazardous waste cleanup program known as Superfund. The fund is to be financed by a new excise tax on business sale, lease or import of tangible property, plus existing business levies. The use of general revenues to pay a small part of the cost would be ended. Businesses are not against paying their fair share but say the proposed tax is unfair. Should business pay all the cost of hazardous waste cleanup?

3 Reform Construction Wage Law?

To help cut defense spending, some in Congress want to revise the Davis-Bacon Act—a Depression-era law under which wages are set at federal construction projects. Advocates say \$245 million could be saved next year by exempting contractors from the law on defense construction projects costing \$1 million or less. Critics say that money should not be saved by shaving workers' wages. Should the Davis-Bacon Act be revised in order to save money?

Respond to the poll with the attached postage-paid card. Letters to the editor on these issues are welcome.

Verdicts On Taxes, Jobless Pay And Tax Indexing

Here is how readers responded to the questions in the June issue's Where I Stand poll. Results of each monthly poll go to appropriate decision makers in the White House, Congress and the regulatory agencies.

	Yes	No	Undecided
1 Should Congress abolish tax preferences to achieve lower rates?	70.1%	21.4%	8.5%
2 Should jobless pay be extended?	4.9	92.3	2.8
3 Should tax indexing be repealed?	16.9	75.9	7.2

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*Dear Diary,
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Once an Entrepreneur, Always an Entrepreneur



Jeffrey Frankel was having fun at college, but the business he had started was growing too fast for him to stay a student.

Jeffrey Frankel could not get the office job he wanted the summer between his high school graduation five years ago and his freshman term at the University of Texas. So that April, the Dallas lad drew up a business plan. He graduated on May 29 and turned 18 on May 31. On June 7 he signed a lease to start a yogurt and sandwich shop.

Today his company consists of 10 I Love Yogurt stores in Texas and Oklahoma, a gourmet hamburger restaurant called Frankelburgers, and two cookie bakeries. The I Love Yogurt Corporation takes in \$3 million-plus a year and employs more than 100 people.

Of course, there have been hurdles along the way. First, Jeff had to win over his father, Sheldon Frankel, a Dallas CPA, who has been his business adviser since he was 11. That was when he created an amateurish prototype for a desktop nameplate out of wood, watercolors and mailbox letters, and took it door to door, bringing home more than \$40 worth of orders.

"My dad said, 'That's wonderful, son, but you're going to have to do a quality job,'" recalls Jeff. "He took me to the hardware store, and I had to buy top quality wood and varnish, fancy little legs and real nice little letters." The results were so impressive that Jeff doubled his orders. "I learned a very valuable lesson concerning doing things right."

Young Frankel liked spending time at his dad's office. He soaked up business acumen. When he was 16, he started a lawn mowing service. His father cautioned him that he might be getting his hopes too high. Nevertheless, he put together a flyer advertising "Lawns of Dallas," had business cards printed, put on a suit and tie, borrowed his father's Cadillac and set out on sales calls. He found more than 100 customers willing to pay \$30 to \$50 to have large yards serviced. He had to hire four full-time people, but he put away more than \$10,000 that

summer.

Two years later, he showed his father a prospectus for I Love Yogurt, and "he couldn't show me where it wouldn't work."

"My father invested in it, I invested in it, and the bank took care of the rest," says Jeff. The first I Love Yogurt was launched in North Dallas for around \$70,000 in August, 1980.

Jeff hired a manager and went off to Austin to college. He attended classes Tuesdays and Thursdays but was in Dallas Friday through Monday to oversee his store and make plans for a second one, which opened the next summer. His mother, Natalie Frankel, kept an eye on the business when he was at school.

By March of his sophomore year, Jeff had started construction on two more stores—a third in Dallas and a first in Tulsa. That and three subsequent Oklahoma stores were opened in partnership with Dave King, a man who would not take no for an answer

when the Frankels insisted they were not interested in selling franchises.

Though it was not unusual to find Jeff on academic probation ("I'm a terrible student," he says), he was having a wonderful time at the University of Texas.

But it could not last. He had three new stores under construction in the fall of 1982, and at the end of his first junior semester, "with a lot of regret," he went back to Dallas for good.

Jeff is president of I Love Yogurt Corporation. Sheldon, though he still has his accounting firm, is executive vice president. Natalie, who baked I Love Yogurt's cookies in her kitchen until the company bakeries took over, was until recently vice president of operations. She retired in favor of a team of three new managers who will help position the company for expansion.

The company is adding more stores and has been besieged by requests to franchise. Jeff is reserving judgment on the best means of expansion.

Determined to finish college, he is now a senior at UT in Dallas. His grades are a bit better, but he speaks glowingly of the fun he had in the 2½ years he spent in Austin. Was leaving worth it?

If he had it to do over, he would still leave. "The sacrifice was necessary."

—Sharon Nelton

Hands On Pays Off

Normally, you would not expect the general manager of a sizable hotel to shuck his job and buy a half-interest in a 63-room motel, especially one with peeling paint, gaping potholes and lots of other problems.

But that is exactly what Ralph Molter, manager of the 330-room LeBaron Hotel in San Jose, Calif., did—and he managed to score a dramatic turnaround in short order.

The secret to his success? "An important element is hands-on personal management," Molter says. "We walk the property in the morning, at noon and at night. The former owner was an absentee owner who relied on a manager. Paid personnel don't worry about a property as much as the owner."

Molter says it is also important to set high standards—and adhere to them. "If you're not consistent, some rooms will be clean and some dirty," he says. "If a guest comes the first time, and he's lucky, he'll get a clean room. But he may get a dirty room the second



Ralph Molter's experience and personal touch turned around Travelodge. Owner attention is the secret, he says.

The trauma sent him to California for a new life that included a new, longer-term goal: independence.

He considered nearly 100 hotel and motel properties before settling on the Travelodge, one of the few such properties available in booming San Jose. "My wife and I wanted to stay in this area," Molter says, "and we felt there wouldn't be another opportunity in town for a long time."

Molter gets laurels for his performance from Charles Koski, director of motel operations for El Cajon, Calif.-based Travelodge International. "Ralph is a sharp busi-

nessman who is extremely well-versed in the hotel and motel field," Koski says.

Molter is closely involved with virtually every aspect of innkeeping. He mans the front desk, answers telephones there and plays tour guide to weekend visitors. "I'm in one-on-one customer contact again, and I'm enjoying every day," he says.

—Steven B. Kaufman

time. The third time he'll go to a Holiday Inn."

Molter established a joint venture with Travelodge—a common ownership arrangement throughout the chain—for \$1 million in November, 1983. At the time, occupancy was only about 60 percent, and the average price of a room was \$27 a night. Today the occupancy rate is 82 percent, and rooms go for \$41.

The Travelodge's revenues rose to \$600,000 last year, up from \$410,000 in 1983, and Molter says he garnered a 50 percent pretax profit margin—high, but not astonishingly so, for a well-run motel without a restaurant.

To get where he is now, Molter, 51, had to be willing to sink a lot of money into the property. He cashed in most of his liquid assets and took out second and third mortgages on homes he owned in San Jose and New Jersey to raise the down payment. Then he borrowed another \$300,000 from banks to overhaul the property.

"It's scary to mortgage everything you have to start your own business," he says.

Yet he had a fierce desire to succeed, fueled by a bitter experience he suffered before joining the LeBaron in January, 1981.

He was manager of a 360-room hotel in New Jersey, and he did a good job there, as well as at the LeBaron. In less than 2½ years, Molter says, he increased the New Jersey hotel's occupancy rate 7 percentage points and boosted net profits 25 percent. Then the owner decided he could run the hotel without the expense of a manager's salary, Molter says, and gave him 24 hours to clear out.

Is He Blue? You Bet!

Salesmen approach David J. Haas and tell him they hate his product. Haas answers with a smile. "I'm glad they hate it," he says. "That means it's working."

Haas is president of TEMPbadge Systems, a Ramsey, N.J., company that makes self-destructing identity badges. "The salesmen don't like my badges because, unlike the plastic pin-on type, they can't be used again to access a building or its different departments," Haas says.

His badges are treated chemically so that outdoor light changes their color. A badge starts out white but, when exposed to ultraviolet radiation, turns blue. It does not react to light from a window or regular indoor lights.

The process used in

making the badges is called flash printing; there is no ink. "It's printing with light," Haas says. "Even the blue lettering on the badges isn't ink. The lettering will blend in with the background when it becomes blue after several minutes in outdoor light."

Some of his clients prefer lettering in colors other than blue. Revlon and Coca-Cola, for example, want red, to coincide with company images. The Mennen Company prefers green. The other colors contain ink. The letters stay legible, but the badge turns blue.

Haas, 46, who has a doctorate in biophysics, began thinking about security badges while working in Mahwah, N.J., for the North American Philips Corporation, which developed X-ray security systems for airports during the 1970s.

The systems also were used in big corporations, he says. "I could see a need for a security system for individuals once they were inside a building."

He started TEMPbadge in 1980.

"People, myself included, were walking off with security passes," says Haas, who patents all his products. "The Defense Department [one of his clients] alone was losing 20 to 30 percent of its badges. Avon Products [another client] told us they were losing at least 30 percent. When someone can get back into a building, he may not just make an unauthorized sales call. He may steal company secrets or maybe just typewriters. The light-sensitive badges can't be used for re-entry."

TEMPbadge's biggest buyers are government agencies, including the Justice and State departments and the Postal Service.

Haas knows how well his badge system can work and cites the example of a Secretary of the Air Force who was refused readmittance to a government meeting because his security badge had



Salesmen hate David Haas' temporary visitor badges; they cannot be used to get back into buildings for unauthorized sales calls.

turned blue. "He had forgotten something, so he went out to his car. When he returned, his badge was blue; and they wouldn't let him back in without going through a security check," Haas says. "He was angry at first but then mellowed when he thought about how the system was working."

TEMPbadge has another type of security badge that turns blue without outside light. It becomes dark blue slowly throughout the day to let in-house security know how long a person has been in a building, and whether he is outstaying his welcome.

Listening to needs has helped the firm grow. "I was talking to a friend about badges for conventions," Haas says. "The first thing she said was that she hoped we had developed something for women. Many women, and men for that matter, don't like the adhesive backing or pins sticking to their clothes."

The company came up with a badge with an adhesive tab that could be attached to the inside surface of a pocket, collar, lapel or neckline. The tab is on a cardboard holder and the color-changing sticker is placed on the holder.

Retailers with warehouse theft worries asked Haas to provide security badges for cars and trucks. So TEMP-park was born. It is a sticker, placed on the outside of a window or door, that later disintegrates when wet.

Badges cost customers less than a penny each, although some go for a quarter when clips and pins are added. A plastic badge costs \$1 or more.

TEMPbadge, a small company—just eight employees, including Haas' wife, Sandra, who is sales administrator—is "doing very well," says Haas.

The company is experimenting with new badges—a type that would change color within 30 minutes and another that would be good for 30 days. "We continually listen to the markets," Haas says.

—Jill Barnes

Wrapping Up The Profits

Mike Hanna and his wife, Laura, did not win a gold medal at last summer's Los Angeles Olympic Games, but they did return home winners. Creators of Tender Sender, a gift wrapping, packaging and shipping business based in Portland, Ore., the enterprising couple set up temporary Tender Sender kiosks in Los Angeles malls to take advantage of gift-sending visitors to the games.



Rather than accept a transfer, Mike and Laura Hanna started a wrapping service in local malls. Tender Sender has become a booming franchise.

"The 10 kiosks were so successful, we stayed in most of those locations through the Christmas season," says Mike Hanna.

The emphasis of Hanna's labors, however, is not on temporary kiosks but on his 3-year-old company's 54 permanent sites around the nation, all but five of them franchised. And on finding another 125 sites for franchises it has sold.

This year, Hanna says, he is budgeting for \$3 million in revenues from the five company-owned outlets and from sales to franchisees. Beyond that, the figures get too heady to estimate. Says Hanna: "In another four years we expect to have 772 stores and be in every major shopping center in the nation."

Entrepreneurial success was, in a way, forced upon the Hannas in 1981 because they did not want to move from the Northwest.

Boise Cascade Corporation, where Mike had worked 10 years—he was a paper sales executive—"was looking to transfer me to Maine, Minnesota or Louisiana," he says. "So Laura and I thought about starting our own business."

"She wanted to open a kitchen supplies store in a mall. We talked about including a gift wrapping-mailing service to help bring people into the store. But the more we thought about one-stop gift wrapping to serve mall merchants and customers, the better the idea seemed. We gave up on the kitchen supplies idea and planned on a gift-wrapping store."

The Hannas put up \$25,000 and solicited another \$40,000 from four couples. It was enough to open a store in March, 1982, in Vancouver, Wash., across the Columbia River from Portland.

Mike and Laura, both of whom are 32, put in workdays of nearly 18 hours those first two years. Mike still works 12 hours a day as company president, but Laura is down to three days a week, spending days off taking care of the two children and writing a book on how to gift wrap.

Most Tender Sender stores have regular mall store space, but some function from kiosks in mall lobbies. All work closely with other mall stores.

"We will only be as successful as retailers in malls want us to be," explains Hanna. "Because many of them do not have a gift-wrapping service, we are providing a service for them. They can advertise that gift wrapping is available and that their customers get discounts if they come to us."

Hanna says Tender Sender stores average between \$50,000 and \$150,000 in annual gross sales, and one employee can handle the business, except during holiday seasons.

Customers choose from three services: standard wrap, similar to what large department stores offer; a custom line, which includes tie-on ribbons; and a creator wrap, where the customer can buy paper and boxes and wrap the package at home.

The charge to have a gift wrapped, packaged and shipped averages \$5.50.

Mike Hanna says he was making \$50,000 a year at Boise Cascade, so he was "taking quite a gamble" when he quit. Did the gamble pay off?

In March, 1984, his company—eager to forestall potential competition—raised expansion cash with a stock offering at 50 cents a share. The stock now trades at 75 cents to \$1. The Hannas own 82 percent of the firm.

—Del Marth



What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
APPROPRIATIONS	The promise of spending restraint, hammered out in the fiscal year 1986 budget resolution, needs to be kept as the House and Senate take up the 13 regular appropriations bills. These are the funding vehicles in which actual savings are achieved.	Members of the House and Senate: Show fiscal responsibility by including in the regular appropriations bills only funding that was approved in the fiscal '86 budget resolution. Excess spending would hurt the long-term economic expansion.
TAX REFORM/SIMPLIFICATION	The administration's and other tax reform plans would eliminate many tax breaks and reduce individual and business tax rates. Hearings are to continue through September in the House Ways and Means and Senate Finance committees on the various tax reform proposals.	Members of the House and Senate: All simplification plans must be studied carefully. Tax reform must not become a euphemism for a tax increase. Any tax increase would reduce future growth and lead to higher federal deficits.
TAXATION OF EMPLOYE BENEFITS	There are proposals to impose taxes on employee health benefits as part of the overhaul of the federal tax code. The status of employee benefits has come under intensified scrutiny, as tax reformers look for ways to expand the base of income subject to taxation.	Members of the House and Senate: Oppose broadening taxation of employee benefits. Support use of tax incentives to encourage the private employee benefits system. Taxing social insurance benefits would erode the benefits' value.
IMMIGRATION	Sen. Alan K. Simpson (R-Wyo.) has introduced his new immigration bill, which differs from last year's. The new bill eases employer sanctions by making it optional for employers to keep records verifying that they have checked specified documents to determine that employees are eligible for employment.	Members of the House and Senate: Support Sen. Simpson's bill as introduced. The U.S. Chamber opposes legislation that places sanctions on employers who hire illegal aliens. The government should enforce current laws more effectively.
SUPERFUND	The Senate Environment and Public Works and Senate Finance committees have approved a bill that recommends an increase in the funding for hazardous waste cleanup to \$7.5 billion over the next five years. The amount is substantially above the \$5.3 billion recommended by the Reagan administration.	Members of the House and Senate: Support a reasonable funding level of \$5.3 billion that reflects the scope and magnitude of a national program to clean up abandoned and inactive hazardous waste sites.
COMPARABLE WORTH	House and Senate committees have held hearings on bills requiring a comparable worth evaluation of the federal work force. The legislation would set a value for each job based on a subjective point system.	Members of the House and Senate: Oppose comparable worth legislation that would replace marketplace determinants. Implementation of the unsound concept of comparable worth would be a serious error.

A Tall Order for Small Business

Delegates to the White House Conference on Small Business in the summer of 1986 will face a historic challenge. The results of the meeting could be a major factor in the course of entrepreneurship into the next century.

The conference is being held in order to:

- Increase public awareness of the key contributions that smaller enterprises make to the overall economy.
- Identify the problems of small business.
- Examine the status of minorities and women as small business owners.
- Assist small business in carrying out its role as the prime source of new jobs.
- Enable small business to present a comprehensive plan for executive and legislative actions needed to maintain its economic viability.

Any one of those goals would represent a heavy responsibility. The conference delegates must deal with them all.

It is crucial, therefore, that the delegates be fully qualified by ability, economic philosophy and business experience to deal with the vital questions that will come before the five-day conference.

Two thirds of the 1,800 delegates will be chosen by their small business peers.

The selections will be made at state confer-



ences to be held from this month through May of 1986. These meetings will also develop policy positions that will guide the national conference.

A participant in a state conference must be an owner, partner or corporate executive of a

business with fewer than 500 employees and must also live in the state where the conference is held.

The success of the national meeting depends fundamentally on participation at the local level by individuals committed to the belief that the nation's long-term economic health requires an environment in which government does not stifle entrepreneurship.

If expressed forcefully enough at the grassroots level in policy declarations and choice of delegates, that view would dominate the national conference.

Owners and managers of smaller firms can make a long-lasting contribution to the future of the free enterprise system by participating in the state conferences and ensuring the selection of properly committed and qualified delegates.

The registration fee for the state conferences is limited by law to no more than \$10. But there is no limit to the potential return on that investment.

Why We'll Celebrate Another Bicentennial

Americans nine years ago enthusiastically celebrated the bicentennial of the Declaration of Independence. It does not denigrate that celebration to point out that the declaration did not guarantee independence.

Freedom had to be won through a war in which the colonial forces came close to defeat many times before the final victory in 1781.

Now America is preparing to mark the final bicentennial celebration of the events that shaped this nation—the drafting and approval of the Constitution in 1787.

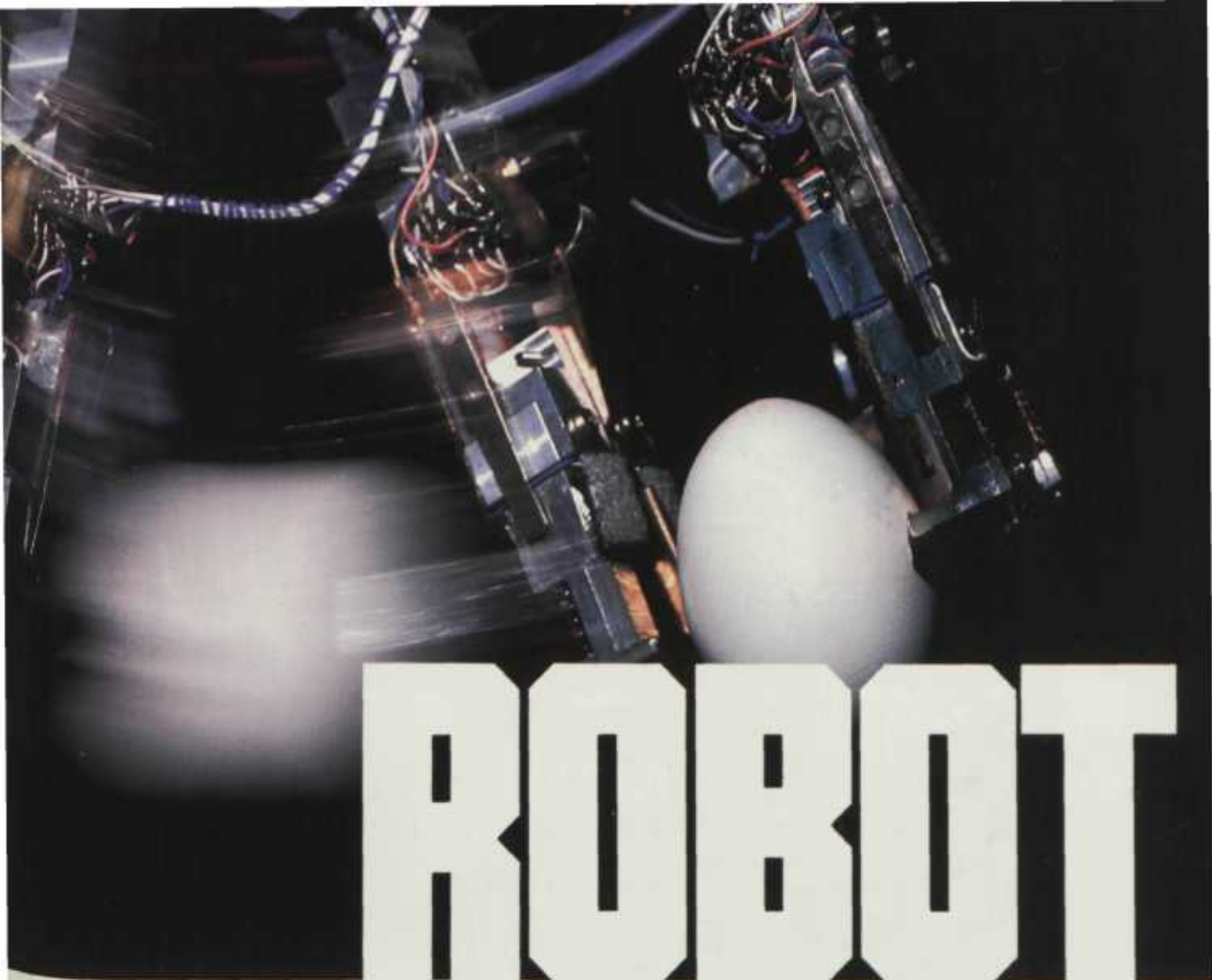
A federal commission on the bicentennial of this basic charter of the nation has been established. Private organizations have already done extensive work in preparation for the celebration. They include the American Bar Associa-

tion and two academic organizations, the American Historical Association and the American Political Science Association. The latter two groups have joined in sponsoring Project '87.

Project '87 is committed to "commemorating the bicentennial of the United States Constitution by promoting public understanding and appraisal of this unique document."

In establishing personal freedoms and setting limits on the power of the central government, the Constitution created a climate in which the free enterprise system would flourish in America more than in any other nation.

When it comes to celebrating freedom, the bicentennial of the Constitution deserves the same outburst of patriotic fervor accorded the bicentennial celebration in 1976. □



ROBOT

Hitachi's visual-tactile robot can handle objects as fragile as eggs, because its sensors detect size, shape and required pressure to attain sensitivity almost equal to that of a human hand.



Nearly two decades ago, Hitachi began turning common science fiction into startling industrial fact. The device: The company's first servo-manipulator, a key component in the development of real robots to eliminate the monotony, danger and dirty work of manufacturing.

Your mechanical right-hand man

Today, the results of Hitachi research are in use all around you. Robot welders using microcomputers and built-in sensors to detect weld lines automatically. Spray-painting robots capable of remembering up to 2,000 instructions and performing 99 different painting tasks. Robots on wheels for transporting parts and warehouse stock.

In fact, we are constantly coming up with innovations and new applications. One of the latest: A visual-tactile sensing robot

with multiple arms and seven camera eyes, developed to independently assemble home appliances such as vacuum cleaners.

The best of worlds is yet to come

Our vision of the future includes robots with artificial intelligence that will learn from their own experiences. Personal robots that will take the drudgery out of household chores. And much, much more.

We'd like you to share in the benefits of our scientific research, covering the next generation of lasers, sensors and other electronic devices. For improved business efficiency. For a higher quality of life. Two goals we've pursued for 75 years as part of our commitment to a better world through electronics.

WE BELIEVE ROBOTS FREE MINDS TO CREATE BY FREEING BODIES FROM TOIL



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